WaterAid/ Sibtain Haider

# Common purpose, common future:

## transforming finance for sustainable development to combat the COVID-19 and climate crises

July 2020

END WATER POVERTY

WaterAid

# Acknowledgements

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▲ **Cover photo: Harka Maya Thapa and her daughter-in-law Muna Thapa, carrying water to Muna's house in the village of Pyuse, Sailung Rural Municipality, Dolakha district, Nepal, 2018.**

# Foreword

The uneven and inadequate global response to COVID-19 exposes the chronic underinvestment in the human rights to water, sanitation, food, education, health and housing. Over two billion people lack access to safe water and three billion people to basic handwashing facilities, a first line of defence for this and other pandemics; over a billion people live in slums, too close to practise social distancing; and at least half of the world's population do not have access to essential health services. The crisis jeopardises learning opportunities for hundreds of millions of children and the livelihoods of almost half the global workforce.

Five years ago, 193 countries adopted the historic Agenda 2030 for Sustainable Development, committing to a common vision and a universal development agenda which "leaves no-one behind". The resources have not matched the rhetoric, however, and COVID-19 is now undermining the fragile progress made. Global poverty levels are rising for the first time in decades and the Sustainable Development Goals (SDGs) 1 and 2 to end extreme poverty and hunger are seriously off-track. The pandemic also coincides with a greater, even existential threat: unprecedentedly high temperatures in the Arctic, the heating of the world's oceans, lethal bushfires, cyclones and other extreme events around the world, confirm the views of mainstream scientists that planet Earth faces a clear and unequivocal climate emergency.

These combined social, economic and environmental crises show the urgent need to make progress on all SDGs and inspire new, collective action towards a more just, equitable and sustainable global order. Central to this agenda is finance, but in many countries, and especially in low-income and lower middle-income economies, the SDGs are severely underfunded, with little or no prospect of positive change. COVID-19 is likely to reduce domestic resource mobilisation and external support for the SDGs in developing countries by at least US$400 billion in 2020-21, and external debt service obligations have reached unpayable levels: US$1.5 trillion is owed each year between 2022-24.

This new report from End Water Poverty and WaterAid, Common Purpose, Common Future, shows that the financing gaps for achieving universal access to safe water, sanitation and hygiene (SDG 6) and Agenda 2030—although large—can nevertheless be met. However, the resurfacing of past problems of indebtedness signals that new solutions are needed, solutions which are not ad hoc or biased towards short-term interests and outcomes. Instead, the necessary funds should be raised and spent in ways which are affordable, green, inclusive and support the long-term strengthening of national systems necessary for the fulfilment of human rights for all: in short, genuinely sustainable finance.

New resources can be raised from allocations of IMF Special Drawing Rights, a global phasing out of fossil fuel subsidies, developing country debt cancellation, increases in grant-based Official Development Assistance and climate finance, action on tax evasion and off-shore tax havens, as well as new taxes on carbon emissions, financial transactions and wealth. Together these actions could lead to a transformation in public finance, which prioritises the SDGs each year through to 2030 and acts as a catalyst and complement to available domestic and international private finance. Crucially, they can deliver real progress on the SDGs and combatting COVID-19, without adding to a growing and unsustainable debt burden in developing countries.

COVID-19 demonstrates how a chain is only as strong as its weakest link. It is more important than ever, in this crisis year of 2020, that the international community comes together to realise the SDGs, the Paris Agreement and the Addis Ababa Action Agenda—implementing the policies and mobilising the resources that are necessary for their achievement, towards a common purpose and a common future.

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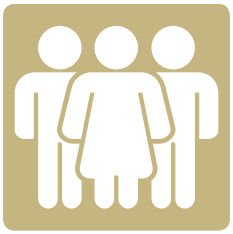
**(End Water Poverty and WaterAid)**

# Contents

# Acronyms

| | |
|---|---|
| **2030 Agenda** | 2030 Agenda for Sustainable Development |
| **BAU** | Business as Usual |
| **COP** | Conference of the Parties |
| **COVID-19** | Coronavirus Disease 2019 |
| **EU** | European Union |
| **FDI** | Foreign Direct Investment |
| **FfD** | Financing for Development |
| **FTT** | Financial Transaction Tax |
| **G20** | Group of Twenty Nations |
| **GDP** | Gross Domestic Product |
| **GHG** | Greenhouse Gas |
| **GNI** | Gross National Income |
| **GSW** | Government Spending Watch |
| **IFI** | International Financial Institution |
| **IMF** | International Monetary Fund |
| **INDC** | Intended Nationally Determined Contributions |
| **LDC** | Least Developed Country |
| **LIC** | Low Income Country |
| **MDB** | Multilateral Development Bank |
| **MDG** | Millennium Development Goal |
| **MIC** | Middle Income Country |
| **NDC** | Nationally Determined Contributions |
| **ODA** | Official Development Assistance |
| **Paris Agreement** | Paris Agreement on Climate Change |
| **SDGs** | Sustainable Development Goals |
| **SDR** | Special Drawing Right |
| **SIDS** | Small Island Developing State |
| **SSC** | South South Cooperation |
| **UN** | United Nations |
| **UNCTAD** | United Nations Conference on Trade and Development |
| **UNGA** | United Nations General Assembly |
| **UNFCCC** | United Nations Framework Convention on Climate Change |
| **UNSDSN** | United Nations Sustainable Development Solutions Network |
| **WASH** | Water, Sanitation and Hygiene |
| **WEO** | World Economic Outlook |



# Executive Summary

The Sustainable Development Goals (SDGs) and the Paris climate commitments are ambitious but vital. They will require sustained investment. While a significant portion will be provided by the private sector, a major share will also have to come from the public sector. The current pandemic crisis is hitting developed and developing countries hard, and its economic impact will be severe. This paper estimates the scale of the impact the pandemic will have in reducing public financing resources for developing countries, and examines ways in which international public financing could be increased to meet the growing financing gap that needs to be filled in order to meet the SDG and Paris commitments.

## Summaries of existing cost estimates

Section 1 summarises existing estimates of meeting SDG and climate commitments, and the resulting 'financing gap' between these commitments and existing resources. It first reviews studies that are of a holistic nature and which cover either all of the SDGs or several of them and finds that:

- The annual total SDG financing gap in developing countries ranges from $1.4 trillion to $2.5 trillion per year according to existing studies. As the studies cover a variety of income groups, geographical regions and sectors, and rely on different methodologies and sets of assumptions it is difficult to assess what the most accurate figure is.
- The share of the total SDG financing gap that should be publicly funded is in the range of 50% to 64%, according to the few studies which attempt to identify this.
- The public financing gap alone ranges from $700 billion to $1,600 billion per year according to existing studies, though one more detailed examination of just the health, education and social protection sectors provided a financing gap of $2.4 trillion for these sectors alone. This, together with the limitations in coverage in some of the other studies suggests that the real financing gap may be higher than these estimates.

Section 1 also provides a deep dive into the costing and estimates of the financing gap of specific SDGs that are particularly important for meeting climate change commitments. This sector-specific review revealed that the financing need and gap may be much greater than the estimates in the holistic SDG studies.

- Water and sanitation (SDG 6): Capital cost estimates range from $114 to $229 billion per year, but when operations and maintenance costs are added, the top of the range extends to $509 billion.
- Infrastructure (SDG 9): the main study in this area estimates that if current investment levels continue, the global shortfall of infrastructure investment to keep up with predicted levels of growth is $350 billion a year, but this gap triples if the additional investment required to meet the SDGs are taken into consideration.
- Energy (SDG 7): one estimate puts the global financing requirement for sustainable energy at $1.3 to 1.4 trillion per year until 2030, while another highlights that cost savings outweigh the increase in energy system costs resulting in a boost to global GDP.
- Ending hunger and Agriculture, fisheries & forestry (SDG 2): Ending hunger has been estimated to require an additional $11 billion a year of public international and domestic resources between 2016 and 2030. One estimate is that agriculture, forestry and fisheries will require $14 billion in additional financing to return Greenhouse Gas (GHG) emissions to their 2007 levels.

- Climate action (SDG 13): studies focused on meeting the climate goals alone provide estimates that can be of a similar scale to the total SDG financing gap estimates, suggesting that the SDG costing figures may not have integrated sufficiently the implications of the climate agenda. The studies focus on different approaches:
  - Costing climate mitigation and adaptation: There are a wide range of estimates ranging from $140 billion to $300 billion per year by 2030 for developing countries alone to a global annual financing gap of as much as $4.9 trillion.
  - Bottom up costing: which find total annual costs of implementing all the Nationally Determined Contributions (NDCs) of Paris signatories to be up to $4.1 trillion, though the data on which this estimate is based is acknowledged to be problematic and these plans would not be sufficient to meet all the commitments in the Paris Agreement.
- Life below water (SDG 14): the main studies in this area suggest that target 14.5 alone – having 10% of oceans under protection – would require at least a $28 billion one-time public investment and about $21 billion a year thereafter, while the costs to avert continued ocean acidification would run to the trillions.

With ten years to go and a major economic crisis caused by the pandemic, in addition to a health crisis, public financial resources are going to be more heavily under strain, at least in the short term. We may find that a greater share of public financing than the 50-64% estimates noted above is needed than in normal times.

## The impacts of the pandemic on the financing gap

This section uses a new analysis of public datasets to estimate the scale of impact that the economic crisis caused by the COVID19 pandemic will have on public financing for the SDGs in developing countries. The datasets we used are the most complete that are publicly available, but suffer from significant shortcomings, so the emphasis should not be on the absolute dollar amounts estimated, but the overall scale of the impact, which is dramatic.

We examined publicly available data from the IMF and an independent dataset to see the difference between future government expenditure on SDG-related sectors both before and after the crisis. We did the same with international public finance: Official Development Assistance (ODA) and South-South Cooperation (SSC). We found that:

- Over $4 trillion was spent through public domestic and international resources toward SDG related activities in 2018, of which the vast majority - $3.9 trillion – was domestic government spending. In low-income countries, however, ODA plays a much larger role and can be as or more important than government spending on SDG sectors.
- Even using the IMF's optimistic projections about the impact of COVID19 on growth rates in developing countries, the impacts are dramatic:
  - Developing countries will have $396 billion less than projected for public spending on SDGs in 2020-21. Developing country domestic expenditure on SDG sectors would fall from $4.44 trillion using pre-COVID19 projections to $4.2 trillion using current IMF projections in 2020. In 2021, when the IMF is optimistically projecting a rebound, the difference would be between $4.66 trillion and $4.5 trillion.
  - The amount developing countries receive in International public finance (ODA and SSC) would be $27 billion less in 2020-21, if donors maintain their current levels relative to GDP.

Using IMF projections for changed economic growth caused by the current crisis, the equivalent of 10% of domestic spending in SDG related sectors would evaporate over two years (2020 and 2021) compared to the 2019 baseline scenario in developing countries. Overall, this would mean a total shortfall in domestic and international public resources of over $400 billion over this year and next, with $246 billion caused by the economic slowdown in 2020 alone.

In June 2020 as this report was being finalised, the IMF downgraded its projections for 2020 and 2021 global GDP and for the major advanced, emerging and developing countries. The projections did not include all countries or the datasets that would have enabled an update to the figures in this research. However, this more pessimistic outlook confirms that the above figures are likely to be a significant underestimate of the scale of the problem.

## How to scale up international public finance to fill the expanding gap

Section 3 provides a summary of existing proposals for raising additional international public revenue to respond to the dramatic worsening of prospects and the urgent need to help fill the SDG public financing gap. It focuses on options which do not create additional debts for developing countries where debt has already become a major issue.

The taxation-based options include:

- Financial transaction taxes, which could raise over $400 billion globally, mostly in the developed world. Given that most G20 countries already have some form of FTT, their viability is not in doubt. Further progress would depend on both their implementation and expansion, and also the ring-fencing of some of the revenues for SDG expenditure. The EU is the most fertile current ground, where proposals continue to be discussed for implementation of a new FTT.
- An airline ticket levy, which could raise $10 billion annually, mostly in the developed world. A number of countries have already adopted this, with revenue allocated for development purposes, but it has fallen off the international agenda in recent years.
- Carbon taxes, which could potentially raise over $1.8 trillion globally, and which would have a significant positive impact on reducing greenhouse gas emissions. Many countries are implementing or considering these, though proposals for an international carbon tax are not currently on the international agenda.
- Wealth taxes, which could raise up to $1.2 trillion globally, and would also have an impact on reducing inequality. Wealth taxes have been in decline in recent decades, though there has been a recent revival of interest, including as a mechanism to pay for public revenue losses caused by the pandemic.
- Reducing tax avoidance and evasion, which could raise hundreds of billions or possibly more, though it is very difficult to make accurate estimates given the levels of secrecy surrounding illicit activities. Such actions would also have the benefit of improving the fairness and effective functioning of the tax system, and have a positive impact on inequality. This has become a major area of national and international policy-making since the global financial crisis, and potential for forward movement is great even if existing initiatives have not been as successful as desired.

Developed country governments could also reallocate existing expenditures to SDG priorities in developing countries. Eliminating fossil fuel subsidies would be an obvious first choice, given the - as yet unfulfilled - international commitments in this area and the benefits for reducing greenhouse gas emissions. This could raise more than $400 billion globally, though some estimates suggest the amount could be more than $4 trillion if all externalities were taken into account. As yet we are not aware of any existing active policy proposals to transfer some of these gains to SDG expenditure in developing countries.

The issuance of large amounts of special drawing rights (SDRs), an IMF-held international currency asset would be an obvious response to the current crisis, given that it was a major plank of the international response to the global financial crisis. As these are issued by agreement, there is no need for any countries to contribute their own funds. One proposal is to issue $1 trillion worth of SDRs for developing countries now, while another is to issue up to $270 billion per year.

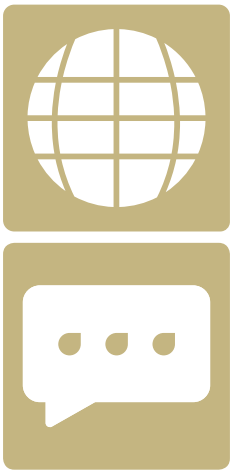
There are a number of debt-related options which should also be on the table including:

- Debt cancellation and standstills, which could dramatically reduce the estimated $1.5 trillion in annual debt repayments that are due from developing countries in future years. This is the most efficient way of providing public resources to respond to the pandemic as it means that developing countries can immediately make use of money that they would otherwise have been paying to creditors. This is why they have been at the centre of existing international responses, though at a far lower scale. The current absence of any fair and independent mechanism for granting relief from unsustainable debts is the main barrier to making more use of this important mechanism.
- Debt swaps, which could potentially write off billions of dollars in debts in exchange for concrete commitments from recipient developing countries to, for example, protect precious ecosystems. These have fallen out of favour in recent years, and have in the past proved to have high transaction costs.

Private philanthropic and charitable resources are estimated at over $40 billion per year, so increasing these could make a modest contribution, while lotteries and crowd-funding instruments would be of a much smaller scale.

Increasing ODA would be an obvious way of providing potentially significant additional resources which, because of its grant nature and development purpose, could be most easily directed at SDG expenditure. Meeting the existing 0.7% of GNI commitment by DAC donors would provide an extra $199 billion per year, whilst increasing the commitment to 1% of GNI would provide $350 billion. Going much further would obviously dramatically expand the resources available.

Given the scale of the challenge facing developing countries in the wake of the global pandemic and the need for a step-change in international solidarity and support, this paper aims to provide a contribution to reviving the critical discussion of how to increase international public financing to support the SDGs and climate commitments.



# Introduction

The Sustainable Development Goals (SDGs) and the Paris climate commitments are ambitious but vital. They will require sustained investment. While a significant portion will come from the private sector, a major share will also have to come from the public sector. Non-commercial activities, such as the provision of water and sanitation to poor communities or delivering fee-free health services will continue to require substantial public expenditure. Public investment will also be required where markets alone will not fully meet SDG needs, such as for helping developing countries in a just transition to clean energy.

This paper tackles three key issues:

- **Section 1** reviews the literature on what the public financing need is to achieve the SDGs by 2030 and tackle climate change, and what the 'financing gap' is between this need and existing public resources.
- **Section 2** uses a new analysis of public datasets to estimate the scale of impact that the economic crisis caused by the COVID19 pandemic will have on public financing for the SDGs in developing countries.
- **Section 3** assesses a variety of different options for raising additional international public resources to support developing countries in filling their public financing gaps.

The current pandemic crisis is hitting developing countries hard, and its economic impact will be severe. Significant concerns about rising debt vulnerabilities in many developing countries have been exacerbated, and so we focus our attention throughout on financing options that are not public debt-creating.

**▼ Ikram, is an eighth grade student and member of the Hygiene and Sanitation Club at a local primary school, Amhara, Ethiopia. November 2017**

# Section 1. The financial gap to deliver the SDGs in developing countries: an analysis of recent estimates

This section provides a summary of existing SDG and climate costing estimates, as well as estimates of the financing gap. It provides a comparative analysis of the range of numbers currently in the public domain and explains why they differ. Where possible, this section also summarises costing estimates of specific SDGs and tackling climate change targets.

The review of the literature has revealed that to date a limited number of studies have estimated the cost of achieving the SDGs and the financing gap between that cost and current levels of spending. However, there appears to be a growing interest in this field of research, with the development of costing tools and sector-specific studies. While it would be useful to compare their results directly, this is made difficult by the fact they cover a variety of income groups, geographical regions and sectors and rely on different methodologies and sets of assumptions.

This section is structured in three parts:

- **Section 1.1** - a brief summary of the major and most cited costing studies;
- **Section 1.2** - a synthesis of sector-specific costing studies with a focus on climate related sectors;
- **Section 1.3** - a commentary on what this tells us for the likely SDG public financing gap and of the amount one could expect to see filled by public spending – both domestic and international.

## 1.1 Major SDG and Paris Agreement costing studies

The adoption of the Sustainable Development Goals (SDGs) and the Paris Agreement in 2015 represented a paradigm shift in the development finance landscape. Serving as a follow-up to the Millennium Development Goals (MDGs) and the Kyoto Protocol respectively, the SDGs are comprised of 17 Goals and 169 related development targets and the Paris Agreement is ratified by 189 countries to date with an aim to limit global temperature rises to 1.5 degrees above pre-industrial levels and to strengthen the ability of countries to deal with the impacts of climate change.

These frameworks are unprecedented in scope and scale, representing broader, more inclusive and integrated agendas, thereby necessitating substantial financing. However, in spite of growing recognition for the financing need of these agendas, the 'financing gap' – the difference between available resources and those required to meet the targets – remains significant, as illustrated by a number of studies that try to quantify it. Five years have now passed since the SDGs were adopted and the Paris Agreement was signed and progress to date was already insufficient before the COVID-19 crisis caused a dramatic setback for developing countries. The UN Secretary General António Guterres called for 'a much deeper, faster and more ambitious response [...] to achieve our 2030 goals' in the 2019 SDG progress report, warning that inequalities continue to increase, global hunger has risen after a prolonged period of decline and the natural environment is deteriorating at an alarming rate (UN, 2019). With ten years to go, amid a global economic crisis caused as the pandemic spreads across the world, this gap is inevitably going to get bigger.

### 1.1.1 Costing studies for the SDGs

Existing studies, summarized in Table 1.1, tend to focus on the following four issues when estimating the cost of the SDGs: the investment need; sector-specific financing needs; the role of the public versus the private sector in filling the financing gap; and developing countries' varying capacity to meet their financing needs.

### Investment need

According to UNCTAD (2014), based on the levels of public and private investment in SDG-related sectors in 2014, the total investment need to meet the SDGs would amount to $5 to $7 trillion annually between 2015 and 2030. Estimates for developing countries alone range from $3.3 trillion to $4.5 trillion per year, for basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health and education. UNCTAD estimated annual investment at around $1.4 trillion in 2014, which when subtracted from the mid-point estimate of the financing need (i.e. $3.9 trillion) leaves an investment gap of $2.5 trillion per year in developing countries.

### Sector-specific financing needs

While some studies try to cover all SDGs, others focus on specific sectors.

UNCTAD (2014) estimated the cost of the whole package of SDGs and identified economic infrastructure in developing countries as having the largest financing need by far. Power infrastructure has the highest financing need of up to $950 billion per year, followed by climate change mitigation (up to $850 billion) and transport (up to $770 billion).

Manuel et al. (2018) focus on three social sectors key to ending extreme poverty: education, health (including nutrition) and social protection transfers. They estimate the annual cost of meeting the targets in these three sectors at $2.4 trillion in all developing countries by 2030.

An IMF staff paper (2019) estimates the additional annual spending required (both public and private) for meaningful progress on the SDGs at $0.5 trillion for low-income developing countries and $2.1 trillion for emerging market economies in 2030. It focuses on five SDG areas: education, health, roads, electricity, water and sanitation. The estimates for roads, electricity, and water and sanitation are lower than those of UNCTAD (2014) with the main difference found in the water sector where the UNCTAD estimates are about $300 billion higher per year. In health and education, UNCTAD's investment gap ($390 billion) is about 20 percent of the IMF's additional spending in these areas which is explained by the fact UNCTAD's calculations only include infrastructure needs in those sectors (hospitals and schools).

### The role of the public versus the private sector in filling the financial gap

A number of the studies highlight the potential role for the private sector to provide financing, in particular for infrastructure investment. They tend to focus on the role of Foreign Direct Investment (FDI). There is also reference to the role for domestic and international public financing throughout the costing studies.

### - Potential role of the private sector

UNCTAD's findings (2014) suggest that for developing countries as a whole, including fast-growing emerging economies, the growth of private investment could play a major role in filling the gap, reducing it from $2.5 trillion to about $1.6 trillion per year. It notes, however, that the relative size of this gap would be far greater in least developed countries and vulnerable economies, compared to the size of their economies, than in other developing countries.

Schmidt-Traub (2015) estimates that incremental spending needs to achieve the SDGs in low- and lower-middle-income countries may amount to at least $1.4 trillion per year: $343-360 billion for low-income countries and $900-944 billion for lower-middle-income countries. He also finds that half of these investments in the SDGs could be privately financed. Domestic resource mobilisation could increase significantly leaving an external financing gap of around $133 - 161 billion per year that must be met through international public finance, including Offical Development Assistance (ODA). Additionally, the paper estimates that globally an incremental 1.3 – 2.0% of world GDP needs to be invested each year by the public and private sectors to achieve the SDGs in every country.

**- Potential role of the public sector**

Manuel et al. (2018) calculate the future tax-generating potential of developing countries and examine to what extent additional tax revenue might fill the financing gap in the social sectors they studied. They also consider the role for ODA in countries where meeting the full tax potential and dedicating a larger share of revenue to the three social sectors would not be sufficient to meet the goals in those areas. Their findings suggest that all upper-middle- income countries and most lower-middle-income countries could fully fund the costs of the health, education and social protection sectors if they achieved the extremely difficult feat of meeting their full tax potential and spent half of their potential revenues on them. They also find that none of the low-income countries (LICs) except Tajikistan could afford the full costs, even if they increased their taxation to the maximum level possible.

UNSDSN (2019) proposes six areas for increased budget revenues for SDG outlays. These include blended financing, international tax reform, increased ODA, new globally harmonized taxes earmarked to the SDGs, increased philanthropic giving and debt relief.

Kharas and McArthur (2019) find that SDG-related public spending was $21.3 trillion worldwide (both developed and developing countries) in 2015 and estimate that governments are likely to spend $32.3-$33.6 trillion per year in 2030, based on economic growth and spending at the time of publication. The study measures a "needs gap" which the authors define as the difference between projected SDG spending and minimum spending needs in 2025. They estimate the overall needs gap at more than $920 billion per year in developing countries. The authors note that this is lower than other recent estimates for two reasons: (i) they identify a significant number of developing countries with no estimated needs gaps in 2025 and (ii) their main results are based on an assumption that countries increase their spending as their economies grow, implicitly backed by increases in domestic resource mobilisation.

**Developing countries' capacity to meet the financing need**

There is broad consensus across the studies on how difficult it will be for Least Developed Countries LDCs and LICs to fill the total SDG financing gap they each identify. There is also broad agreement across the studies that emerging economies should have the capacity to fill the gap with little external public finance.

UNCTAD (2014) estimates that if the rate of private sector investment in SDG sectors and growth rates were to stay constant, the shortfall for LDCs would imply a nine-fold increase in public sector funding requirements to 2030.

Manuel et al. (2018) estimate the costs in LICs alone to be at $137 billion in the sectors of education, health and social protection and conclude that none of the LICs (except for Tajikistan) will be in a position to fund the gap even in if they manage to substantially raise tax revenue and spending in those sectors.

The IMF (2019) highlights how much greater the effort will be to make significant progress in education, health, roads, electricity, and water and sanitation in low-income developing countries where the average additional spending represents 15 percentage points of GDP as opposed to 4 percentage points in emerging market economies. In addition to extra resources, the IMF paper points to the importance of tackling spending inefficiencies. In one of the paper's scenarios, in which countries fail to improve spending efficiency, they conclude that additional spending will increase from 15 to 25 percentage points of GDP in low-income developing countries and from 4 to 6 percentage points of GDP in emerging market economies. Conversely, if countries were to spend more efficiently than assumed in the baseline scenario, additional spending requirements would decline.

UNSDSN (2019) offers an initial estimate of the SDG financing needs for 59 low-income developing countries covering eight SDG sectors: health; education; infrastructure (including climate adaptation and mitigation); agriculture; biodiversity and ecosystem services; social protection; access to justice; and data for the SDGs. The authors estimate the total SDG financing gap at $400 billion per year between 2019 and 2030 in low-income developing countries.

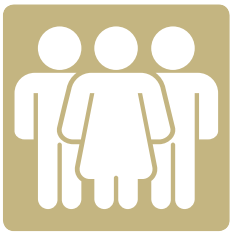
Kharas and McArthur (2019) also note that most low-income countries have large SDG needs gaps which they estimate at $150 billion in 2025.

**Table 1.1.** Summary table of main SDG costing and gap estimates.

| Source (ordered from studies that cover the most to the least SDGs) | Sectors covered and limitations | Total funding need/gap in developing countries | Funding gap in LICs/LDCs | Share needed to be covered by public funding |
|---|---|---|---|---|
| UNCTAD (2014) | **Coverage:** Total SDGs.<br>Limitation: This covers investment only and not recurring costs. | Total funding need is between $5-7 billion leaving a mid-point gap of $2.5 trillion each year in developing countries between 2015 and 2030. | n/a | $1.6 trillion so 64% of the total |
| Schmidt-Traub (2015) | **Coverage - study translates the 17 SDGs into the following investment areas:**<br>Health; Education; Social protection; Food security and sustainable agriculture; Infrastructure<br>(Energy access and low-carbon energy infrastructure;<br>Water and sanitation; Transport infrastructure; Telecommunications infrastructure; Ecosystem services and biodiversity); data for the SDGs; and emergency response and humanitarian work. | Incremental spending needs in LICs and LMICs may amount to at least $1.4 trillion per year | LICs' spending need will be $343-360 billion per year | 50% so $700 billion |
| Kharas & McArthur, (2019) | **Coverage:** Total SDGs focused on public financing only | Needs gap for LICs, LMICs and UMICs will be $920 billion in 2025 | LICs' needs gap will be $150 billion in 2025 | All expected to be covered by public spending, so $920 billion |

| Source (ordered from studies that cover the most to the least SDGs) | Sectors covered and limitations | Total funding need/gap in developing countries | Funding gap in LICs/LDCs | Share needed to be covered by public funding |
|---|---|---|---|---|
| UNSDSN (2019) | **Coverage:** Health, education, infrastructure (including climate adaptation and mitigation), agriculture, biodiversity & ecosystem services, social protection, access to justice, and data for the SDGs | n/a | Total SDG financing gap of $400 billion per year between 2019 and 2030 in the 59 low-income developing countries | Not estimated |
| IMF (2019) | **Coverage:** Education, health, roads, electricity, water and sanitation | Financing gap of $2.5 trillion for low-income developing countries and emerging market economies annually in 2030 | Financing gap of $0.5 trillion for low-income developing countries | Not estimated |
| Manuel et al. (2018) | **Coverage:** Education, health (including nutrition) and social protection transfers<br>Limitation: Limited to three key areas of public spending. In particular infrastructure is not included in the costing | Total funding need is $2.4 trillion annually in LICs and MICs | The funding gap in LICs is $137 billion.<br>The funding gap in 48 under-resourced countries which are predominantly low-income, least developed and fragile states is $150 billion. | Assumed in recommendations to be covered by public sources though not explicitly spelled out. |

The studies summarised above which examine the annual total SDG financing gap in developing countries range from $1.4 trillion (Schmidt-Traub, 2015) to $2.5 trillion (UNCTAD, 2014). As per the limitations described in Table 1.1 across the studies and their variation in coverage and methodologies, it is difficult to assess what the most accurate figure is. Studies which attempt to identify the share of the total SDG financing gap that should be publicly funded are in the range of 50% to 64% (see Table 1.1). There are additional studies that examine the public financing gap alone giving a greater range of options for this, from $700 billion (Schmidt-Traub 2015) to $920 (Kharas and MacArthur 2019) to $1.6 trillion (UNCTAD, 2014). Manuel et al's (2019) more detailed examination of just three sectors (health, education and social protection) provide a financing gap figure of $2.4 trillion for these sectors alone – which they suggest should be financed by increasing public expenditure. This, together with the limitations in coverage in some of the other studies suggests that the real financing gap may higher than these estimates.



### Box 1.1 Costing the Covid-19 response need in developing countries

As the Covid-19 pandemic continues to spread across the world at the time of writing and countries go into lock-down, the costing estimates cited above will need to be revised upward. Analyses on the effects of Covid-19 in developing countries are already mushrooming. This box provides is a very brief review of some of the cost estimates being discussed at the time of writing. UNCTAD (2020a) estimates that developing countries as a whole (excluding China) will see an overall drop in their trade balance of around $225 billion in 2020 with major consequences for their development needs, structural transformation plans and their ability to generate output and capacity to continue to face external financial commitments. The UN called for a $2.5 trillion coronavirus crisis package for developing countries in the form of $1 trillion through the expanded use of special drawing rights, $1 trillion of debt cancellation owed by developing countries and $500 billion to fund a Marshall Plan for health recovery and dispersed as grants (UNCTAD, 2020b). New Oxfam analysis (2020) finds that the economic crisis caused by coronavirus could push over half a billion people into poverty unless urgent and dramatic action is taken. Oxfam lays out an Economic Rescue Plan for All, mobilising at least $2.5 trillion dollars to tackle the pandemic and prevent economic collapse in developing countries. It prioritises helping people directly: giving cash grants to all who need them. An immediate suspension of the debt payments of poor countries, combined with a one-off economic stimulus by the IMF and an increase in aid and taxes are the means through which Oxfam suggests funding this plan.

## 1.2 Sector specific costing studies with a focus on climate related sectors

Although the sustainable development and climate agendas were negotiated and are implemented separately, they are deeply interrelated. Climate actions have the potential to either enhance or stifle the progress on sustainable development targets and vice versa. This paper therefore lays emphasis on the financing need to combat climate change through the lens of the SDGs. This will be done by taking a closer look at selected SDGs that have strong implications for addressing climate change challenges. This section provides a summary of the cost estimates and financing gaps in the SDGs that are very relevant from a climate perspective.

### Water and sanitation (SDG 6)[1]

Climate change has a direct impact on water resources and services and therefore is a priority climate-sensitive sector for many developing countries. Due to changing precipitation and temperature patterns, the availability, predictability and quality of water supplies are all likely to be affected – and water-related extremes are likely to increase. This will adversely affect supply and delivery of water, sanitation and hygiene services for many (NCE, 2018).

Studies which attempt to cost SDG 6 focus on targets 6.1 and 6.2. as those are easier to estimate as the unit costs to achieving those targets are largely known, for example.

In a study by Hutton and Varughese (2016), the total capital cost for meeting SDG targets 6.1 and 6.2 is estimated to be around $114 billion per year, three times the current investment levels. Costs estimated cover those of capital investment, programme delivery, operations, and major capital maintenance for 140 countries (85% of the world's population). This cost, however, is estimated without factoring in the impact of climate change which represents a significant shortcoming as countries have recognised the importance of adopting adaptation and mitigation measures to strengthen the resilience of communities to climate change and to improve water security.

Rosenberg and Fay (2019) find a higher capital cost for meeting SDG 6.1 and 6.2 ranging from $171 billion to $229 billion per year from 2015 to 2030. This is made up of $67 billion to $129 billion to extend coverage to the currently unserved population and the rest to replace existing assets. When operations and maintenance costs are added to the capital costs, delivering on SDG 6.1 and 6.2 would be in the region of $406 to $509 billion annually in LICs and MICs between 2015 and 2030. This study draws on the approach of Hutton and Varughese (2016) to build a series of scenarios from which it derives possible costings which is why the results are given as ranges. Two things are added to the Hutton and Varughese (2016) methodology: (i) the cost of preserving service for those currently served and (ii) a further exploration of uncertainty and cost drivers, in particular assumptions around demography and urbanization, capital spending, service upgrade pathway, and choice of technology.

In addition to the direct water, sanitation and hygiene (WASH) costs, the OECD (2018) suggests a number of government measures are needed to help mobilise private commercial finance – especially domestic private finance. These measures include policy reforms in the water sector and improvements of the balance of tariffs and taxes as sources of finance.

### Infrastructure (SDG 9)[2]

Transport, information and communication technology (ICT) and other infrastructure networks are extremely vulnerable to the physical impacts of climate change such as rising sea-levels, flooding and other extreme climate-induced disasters. McKinsey Global Institute (2016) estimate the world needs to invest about 3.8 percent of GDP, or an average of $3.3 trillion a year, in economic infrastructure to support expected rates of growth between 2016 and 2030. Emerging economies account for some 60 percent of that need. The same study goes on to say that if the current trajectory of

[1] SDG target 6.1: By 2030, achieve universal and equitable access to safe and affordable drinking water for all. SDG target 6.2: By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.

[2] SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

underinvestment continues, the world will fall short by roughly 11 percent, or $350 billion a year. The size of the gap triples if the additional investment required to meet the SDGs are taken into consideration.

The Asian Development Bank (2017) estimates that developing countries in Asia alone will need to invest $26 trillion from 2016 to 2030 if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change. Without climate change mitigation and adaptation costs, $22.6 trillion will be needed, or $1.5 trillion per year under the baseline estimate. Of the total climate-adjusted investment needs over 2016–2030, $14.7 trillion will be for power and $8.4 trillion for transport. Investments in telecommunications will reach $2.3 trillion, with water and sanitation costs at $800 billion over the period.

## Energy (SDG 7)[3]

Increasing demand for energy services coupled with dependence on fossil fuels is a central climate-related global challenge. Some two thirds of greenhouse gas (GHG) emissions can be attributed to the energy sector highlighting the importance of investing in cleaner energy (International Energy Agency, 2019[4]).

Most countries have acknowledged the central role played by energy in climate change and development. This interlink is strongly reflected in Intended Nationally Determined Contributions (INDCs), where 16% of activities are linked to SDG 7. According to the International Energy Agency (2019), the global financing requirement for sustainable energy is $ 1.3 to 1.4 trillion per year until 2030. The paper also finds that energy investment has a strong link with country-level financial sector development. Therefore, the need to boost investment in sustainable energy was highest in the regions with the least developed financial sectors.

Another study by International Renewable Energy Agency (IRENA) (2019) finds that the energy transition from 2015-2050 will require an additional investment of $127 trillion in decarbonising solutions. It also highlights that cost savings outweigh the increase in energy system costs and is likely to boost global GDP by 1% in 2050.

## Ending hunger and agriculture, fisheries & forestry (SDG 2)[5]

The agricultural sector (crops, livestock, fisheries and aquaculture, and forestry) and food systems are highly sensitive to climate change related disturbances. UNFCCC (2007) estimates agriculture, forestry and fisheries will require $14 billion in additional investment and financial flows to return Greenhouse Gas (GHG) emissions to their 2007 levels.

In addition, agriculture livelihoods, food security and nutrition outcomes are also increasingly threatened by the effects of climate change. A joint study conducted by the FAO, IFAD and WFP (2015) of the total investment costs required to achieve zero hunger by 2030 finds that 60% of the additional investment needed to enhance the incomes of the poor in rural areas are public investments.

SDG 2.1 which aims to end hunger by 2030 has been estimated to cost, on average, an additional $11 billion per year of public spending between 2016 and 2030 – $4 billion of additional spending to come from donors and the remaining $7 billion from national governments. Public spending would be expected to generate an additional US$5 billion in private investment through 2030 (Laborde et al., 2016).

Though this collection of figures in billions and trillions of dollars can be somewhat dizzying, given the scale of financing required to meet this subset of SDGs, we can see that a significant share of the financial gap to be filled in order to deliver the SDGs has the potential to pursue the objectives of both the development and climate agendas.

[3] Ensure access to affordable, reliable, sustainable and modern energy for all.

[4] International Energy Agency (IEA), 2019. Commentary: Tracking the decoupling of electricity demand and associated CO2 emissions.

[5] End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

## Climate action (SDG 13)[6]

The studies reviewed below are specialised climate studies which assess the cost of climate mitigation and adaptation. Given SDG 13 refers to the climate agenda broadly, including the Paris Agreement, we have summarised their findings here. We do recognize however that climate action cuts across all SDGs and that the costs reported below will be spread across SDG 13 as well as other SDGs.

The costings in these climate studies do not clearly overlap with the climate costings in the SDG studies reviewed in section 1.1. Fankhauser and Schmidt-Traub (2011) warn that there is often a lack of integration between adaptation and development in climate costings which implies that estimates of adaptation costs and funding needs are incomplete and subject to somewhat arbitrary delineations on where development ends and adaptation begins. Some of the figures below which describe the financing gap for climate mitigation alone are of a similar scale to the total SDG financing gap estimates cited in section 1.1. suggesting that the SDG costing figures may not have integrated sufficiently the implications of the climate agenda.

### Costing climate mitigation and adaptation

UNEP (2018) estimates the annual cost of climate adaptation to be within the range of $140 billion to $300 billion by 2030 and from $280 billion to $500 billion by 2050 for developing countries.

According to an IPCC Special Report (2018), more than $2.38 trillion (2010 prices) would need to be invested annually in mitigation to stay well below 2°C between 2016 and 2035.

The Global Green Growth Institute (2016) estimates that total climate finance in non-OECD countries will reach $4.0–4.9 trillion from 2016 to 2030 bringing the climate financing gap to $2.5–4.8 trillion. In an earlier report, the Global Green Growth Institute (2015) estimated the share of public finance needed to fund infrastructure to be at 60-65% in developing countries compared to 40% in developed countries.

### Bottom up costing based on the Paris Agreement parties' NDCs

Another way of looking at the cost of financing climate action is through a bottom-up approach based on the signatories' nationally determined contributions (NDCs). This gives a sense of the commitments made to date which are in and of themselves insufficient to meeting the Paris Agreement goal of limiting global warming. What the figures do offer however, is a sense of what countries estimate they should or could spend in this area through public finances (both domestic and international).

In these climate action plans, most developing countries make their mitigation and adaptation contributions conditional upon receiving international support such as finance, technology transfer and/or capacity building. Some studies (German Watch, 2016, Pauw et al. 2019) have reviewed those documents and attempted to add up the financing requirements mentioned in each of them, but they have found this exercise difficult. Not all NDCs cost the financing needed to deliver on their ambitions. For those that do, the quality, costing methodologies and timeframes differ across countries as well. The lack of an agreed template to complete INDCs has meant that each country had to come up with their own version, making comparability difficult (German Watch, 2016; Paw et al., 2019).

Pauw et al. (2019) estimate the total cost of implementing the NDCs which are partly or fully conditional on international support at $4.1 trillion. This total would be made up of climate finance and domestic resources. The authors urge readers to use these estimates with care not least because they had to calculate the costs for countries which did not include costings in their NDCs.

German Watch (2016) carried out a similar exercise and came to similar conclusions. The authors are also cautious regarding their results noting that only 57% of the conditional INDCs include estimates of quantified financial needs for the implementation of planned actions. They estimate the total financing needs referred to in NDCs (including both unconditional and conditional parts) to be more than $4.4 trillion.

[6] Take urgent action to combat climate change and its impacts.

### Life below water (SDG 14)[7]

UNDP reports that actions to achieve SDG target 14.5 alone – having 10% of oceans under protection – are estimated to require at least a $28 billion one-time public investment and about $21 billion a year thereafter. It goes on to say the costs to avert continued ocean acidification, which is directly linked to action on climate change mitigation under the Paris Agreement, will most certainly run into the trillions (UNDP, 2020a).

### Life on land (SDG 15)[8]

According to the UN Forum on Forests Secretariat, achieving sustainable forest management on a global scale would cost an estimated $70-$160 billion per year. The Convention on Biological Diversity estimates that $150-$440 billion per year is required to halt the loss of biodiversity at a global level by the middle of this century (UN, 2018).

What these sector specific costings have revealed is that the financing need and gap may be much greater than the estimates reviewed in the SDG studies in section 1.1. For instance, under SDG 14, the cost of averting further ocean acidification alone may be in the trillions.

## 1.3 Outstanding financing gap: what role for public finance vs private finance?

In the context of ambitious development and climate priorities, widespread fiscal austerity over the last decade, rising debt levels and an eroding faith in multilateralism, the nature and composition of development finance flows was rapidly changing even before the pandemic hit. There was a growing expectation that the private sector will take on a greater role in the financing of these agendas. Just how big a role is unclear however, and is bound to vary sector by sector and country by country. It is clear that the public sector will also continue to play a pivotal role, and though space remains for contributions from philanthropic organisations, charities or high net worth individuals for example, these not-for-profit sources are very small compared to public resources.

This changing financing landscape has incentivised new thinking on development finance flows especially with respect to the role of private capital for development. This covers both domestic and international private finance, although the bulk of the private sector's contribution is expected to come in the form of FDI (IMF, 2019). UNCTAD (2014) estimates the growth of private investment could play a major role in filling the $2.5 trillion financing gap by reducing it to about $1.6 trillion per year, in other words covering nearly one third. Schmidt-Traub (2015) estimates that incremental spending needs in low- and lower-middle-income countries may amount to at least $1.4 trillion per year and that half of these investments can be privately financed.

While private finance is seen as an important part of the financing mix and private actors have shown increased interest in contributing to this agenda, there are limitations to its scalability. Moreover, private sector involvement is not always desirable and can pose a number of dilemmas for public authorities. These can include risks related to transferring public assets to domestic or foreign private actors in essential infrastructure,[9] to maintaining quality services at an affordable price for all or just the challenge of attracting private financing in some of the poorest countries (UNCTAD, 2014).

In light of the above, it is clear that public and private finance play different roles in delivering the SDGs, and there are many areas for which private finance – which needs to seek commercially attractive opportunities – cannot substitute for public finance. For instance, the New Climate Economy (2016) estimates that for infrastructure financing (i.e. water supply and sanitation, energy, transport and ICT), the share of public finance would be in the range of 60-65% in developing countries and approximately 40% in developed countries. On the other hand, delivering social protection for all or healthcare for the poorest are examples of welfare services which need to be financed predominantly through public resources.

[7] Conserve and sustainably use the oceans, seas and marine resources.

[8] Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss.

[9] China's 5G technology and the nervousness of Western countries related to giving Chinese companies access to developing their 5G network is a good example of this.

The role of private finance will therefore be uneven across developing countries and sectors to meet the SDGs and climate change challenges, and public finance will continue to be needed to fill a significant part of the financing gap.

It is therefore difficult to estimate what share of the financing gap should be covered by public and private sector actors. The table below replicates UNCTAD's (2014) estimates of average private sector participation in investments in developing and developed countries across sectors.

**Table 1.2** Private sector participation in investment in various sectors.

| Sectors | Average private sector participation in current investment (in %) | |
|---|---|---|
| | Developing countries | Developed countries |
| **Power** (Investment in generation, transmission and distribution of electricity) | 40-50 | 80-100 |
| **Transport** (Investment in roads, airports, ports and rail) | 30–40 | 60–80 |
| **Telecommunications** (Investment in infrastructure (fixed lines, mobile and internet) | 40–80 | 60–100 |
| **Water and sanitation** (Provision of water and sanitation to industry and households) | 0–20 | 20–80 |
| **Food security and agriculture** (Investment in agriculture, research, rural development, safety nets, etc.) | ~75 | ~90 |
| **Climate change mitigation** (Investment in relevant infrastructure, renewable energy generation, research and deployment of climate- friendly technologies, etc.) | ~40 | ~90 |
| **Climate change adaptation** (Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.) | 0–20 | 0–20 |
| **Eco-systems/biodiversity** (Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.) | - | - |
| **Health** (Infrastructural investment, e.g. new hospitals) | ~20 | ~40 |
| **Education** (Infrastructural investment, e.g. new schools) | ~15 | 0–20 |

Source: UNCTAD, 2014

Based on the above and as discussed in the closing paragraph of section 1.1, the annual total SDG financing gap in developing countries based on the studies reviewed ranges from $1.4 to $2.5 trillion.

This review of the literature dedicated to costing and estimating the financing gap has made even more apparent the fact that figures that cover the whole of the SDGs are lacking or have significant limitations. In particular, a review of sector specific costings and climate action costings has revealed that the gap may be much higher. With such a broad agenda and assessments that the world is not on track to meet the SDGs five years into the fifteen-year period, we can only assume that the financing need and gap are going to increase.

The COVID-19 pandemic and its widespread consequences will significantly widen the gap (see Box 1.1).

With ten years to go and a major health and economic crisis caused by the pandemic, it seems public financial resources are going to be more heavily under strain, at least in the short term. In normal times, the costing studies which distinguish between public and private financing estimate the share of the gap that should be publicly funded is in the range of 50% to 64%. We may find that a greater share is needed than in normal times. The use and availability of these resources will play a key role into whether the SDGs will be achieved.

**▼ Village women walk on cracked ground, towards a pond to collect water at Vitaranga, Gunari, Dacope, Khulna, Bangladesh, March 2018.**

# Section 2. Filling the SDG public finance gap? Current public financing and potential impacts of COVID-19

This section draws on a series of datasets to describe the scale of current public financial flows going toward the SDGs and considers the future composition of public financial flows under two scenarios (a pre-COVID-19 business as usual scenario and a COVID-19 potential impact scenario). The datasets we used are the most complete that are publicly available, but suffer from significant shortcomings, including data gaps or poor quality data for several countries. We have made allowances for this, but it is important to state at the outset that the purpose of this exercise is to ascertain the scale of impacts of the pandemic, not to produce dollar figures to rival those reviewed in section 1.

Our aim throughout this analysis is to tackle the following research questions:

- What effect might COVID-19 have on the financing gap?
- What is the magnitude of the setback in SDG funding at least in the short term?

## 2.1 Methodology

We define public financial flows as resources from a government or international public organisation. This section analyses publicly available data to illustrate current trends in government spending and development finance and to build future scenarios. For development finance, we narrowed the scope by focusing on concessional financing where possible.

The flows reviewed therefore cover:

- Domestic government spending
- Development finance:
  - ODA (bilateral and multilateral)
    - Specific focus on climate finance
  - South-South cooperation

The focus of this study is on public spending that reaches developing countries using the World Bank list of Low-income countries (LICs), Lower middle-income countries (LMICs) and Upper middle-income countries (UMICs). We also draw on the World Bank regional classifications to highlight regional differences where relevant. Annex 2 provides the full list of the countries across income groups and regions.

Given the strong interconnections between climate and the SDGs, we conducted in depth reviews of domestic and international public funding targeted at five sectors that are central to both agendas: Water, sanitation and hygiene (WASH); Energy; Transport; Agriculture, fisheries and forestry; and, Environmental protection. Two considerations have been taken into account when identifying the sectors for our deep dives: (i) the importance of the sector to both the SDGs and the Paris agreement (i.e. they are key to meeting the objectives rather than simply offer co-benefits); and (ii) the relative availability of sector-level data for both domestic and international public resources.

The results presented throughout have their limitations and we do not pretend the current spending estimates are exact as the datasets used all present issues or gaps which we discuss in the relevant sub-sections. Instead, we see this exercise as an attempt to come up with figures that help illustrate the potential evolution of the SDG financing gap in view of COVID-19.


▲ **Ernesta Culpa, Maternity Nurse, stands in a ward at the Matibane Health Centre in Chicoma Village, Mossuril District, Nampula Province, Mozambique, October 2017.**

## 2.2 Current trends

### 2.2.1 Domestic public spending

#### Methodology

The main challenge for this review has been the availability of data on domestic spending at a sectoral level across developing countries in order to estimate how much is being spent on SDG-related sectors. Two approaches were possible: using a single dataset which has the benefit of ensuring consistency of methodology across the board, or compiling sector specific datasets with the downside that they vary in country coverage and data reporting requirements. As this research was not intended to provide robust numbers but rather an indication of the scale of the setback caused by COVID-19, we opted for the first approach which is simpler to do. The latter approach is preferable in terms of ensuring deeper accuracy of estimates, but is obviously a lot more time consuming. Moreover, the sectoral approach was used in a recent study by Kharas and McArthur (2019) which gives us an opportunity to compare results. We reviewed two datasets for this analysis, one from the IMF and one compiled by Development Finance International and Oxfam called Government Spending Watch.

- IMF dataset

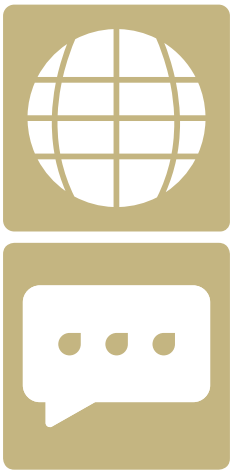
First, we looked at government expenditure targeted at SDG-related sectors as a share of GDP using the last year of IMF data available in LICs, LMICs and UMICs. To determine which sectors contribute to meeting the SDGs, we reviewed the full list of functions of government covered by the IMF Government Finance Statistics dataset[10] (Annex 1 provides the full list) alongside the list of SDGs and selected the ones that offered a close match across the full set of SDGs. We then compared this list with studies that have undertaken a similar exercise (Schmidt-Traub, 2015; Kharas and McArthur, 2019) and found our results were comparable to theirs (see table 2.1).

[10] https://data.imf.org/regular.aspx?key=61737706

**Table 2.1** SDG-related government expenditure items, comparison of selection methodologies.

| | |
|---|---|
| **Schmidt-Traub, 2015** | Health; Education; Social protection; Food security and sustainable agriculture; Infrastructure (Energy access and low-carbon energy infrastructure; Water and sanitation; Transport infrastructure; Telecommunications infrastructure); Ecosystem services and biodiversity.<br>To those, he adds another two: data for the SDGs and emergency response and humanitarian work |
| **Kharas and McArthur, Brookings, 2019** | Social protection spending (excluding health); Agriculture spending; Health spending; Education spending; Infrastructure spending; Biodiversity conservation spending; and, Justice spending. |
| **Selected IMF, COFOG expenditure items for this study** | General Public Services; Defense (civil defense* only); Public Order and Safety; Economic Affairs (agriculture, forestry, fishing and hunting; fuel and energy; transport; communication); Environmental Protection; Housing and Community Amenities (water supply); Health; Education; Social Protection<br>* Of all the defense spending, we only consider civil defense as contributing to the SDGs. Civil defense spending includes costs associated with the formulation of contingency plans or the organization of exercises involving civilian institutions and population for example. |
| **Selected Government Spending Watch items for this study** | Agriculture; Education; Environment; Gender; Health; Social protection; Water and Sanitation |

Source: Authors' summary



As with all datasets, we encountered a number of limitations. First, the country coverage is far from global. Of the 138 countries falling under the LIC, LMIC and UMIC World Bank income group classifications, we only have data for 71, so around half of the countries. In terms of population, however, this represents 80% of the population living in LICs, LMICs and UMICs. Second, we used the data for the last available year. This varies across countries, ranging from 2009 to 2018 but we found that the vast majority of the data dates from 2017 and 2018. Third, the quality of the data varies across countries as the data is provided on a voluntary basis. In some cases, the reporting is limited to aggregate government expenditure; in others, there is more detailed information broken down to the level of government functions (e.g. education) and sub-functions (e.g. primary, secondary, tertiary education etc.). The data is not always a good indicator of domestic public spending as a whole, as statistics for subnational spending tend to be quite poor. We can therefore predict that the results we get using the IMF data is at the lower end of actual spending. Fourth, the spending functions we selected in the IMF dataset do not align neatly with the SDGs and the wider agenda toward combating climate change. For example, under function 7043 Fuel and Energy investments in clean (e.g. solar energy) and less clean (e.g. fossil fuels) energy generation are included. However, the data does not go into enough detail to show that kind of distinction in terms of volume of spending. Fuel and Energy is all bundled under the same heading.

In light of the above, the IMF data is far from perfect but it has the advantage of being comprehensive in terms of sectors and geographic coverage. Given our objective of testing the scale of the gap and the difference made by COVID-19, we think it will be able to provide us with a broad but partial and under-estimated picture of the current spending in SDG sectors while acknowledging that our findings have to be considered with the limitations we have set out in mind.

There are three final points relating to our methodology:

1. Dealing with countries that have no data coverage. To estimate the overall volume of government expenditure targeted at SDGs in 2018 USD in developing countries, we allocated to countries without data the average spending per government function of their peers in the same region and income group. For a few LIC countries, this was not possible (e.g. Haiti is the only LIC of its region and has no data), we therefore allocated those countries the average spending per government function observed in sub-Saharan African LICs as it is the region with most LICs and the average should therefore be less skewed by individual country specificities.
2. Dealing with outliers caused by poor data collection. As noted above, the quality of the data varies from country to country. In order to prevent outliers caused by poor data collection from skewing the analysis, we adjusted for them using the following method. Once we had data for all countries, we used z-scores to identify outliers. Z-scores are used to give a sense of how far a data point is from the mean. We treated each income group individually and identified a number of outliers in each. We found a large number of very small countries among the outliers which were unlikely to skew the data significantly, so we focused on the smaller number of big countries that were also outliers. We applied a population threshold and decided to focus on countries with a population in excess of 200 million inhabitants. This left us with three outliers for the IMF data (China, India Pakistan). We applied the same methodology to the GSW data and ended up with one outlier for GSW (Pakistan). For those major outliers, we allocated the average spending per government function of their peers in the same region and income group as a simple, if imperfect way of preventing their data from skewing the figures.

3. Avoiding double counting of international concessional finance. Government revenue, which is the source of government spending, includes grants provided by international actors. IMF data provides an estimate of how much of government revenue comes from such grants as a share of GDP, but it does not give more detail on the nature or origin of those grants. Given these grants are not mobilised domestically, we have decided to exclude them from our analysis. We do this in order to avoid double counting ODA grants or other forms of international assistance that fall under this 'international grants' label as they are covered separately in other parts of this report. We therefore calculated the share of GDP attributable to international grants and then subtracted this share from our results which are also expressed as a share of GDP. This approach assumes governments record all donor grant spending on their budgets which may not be the case in some countries so there is a risk it will remove too much spending in some cases. At the same time this approach fails to capture concessional loan financed spending so it does not remove enough spending in this regard. Whether the two cancel each other out is unclear.

- Government Spending Watch

Government Spending Watch (GSW)[12] tracks spending across a number of sectors, which relate to the commitments made in the context of the SDGs. Using internationally agreed financing targets, GSW tracks and publishes information across seven sectors related to the delivery of the SDGs. The vast majority of data is sourced from governments themselves (mostly from published documents such as budgets, budget execution reports, or sectoral reports) and with the help of government officials. Those documents tend to cover planned spending for a future period of time rather than provide an ex post summary of actual spending. GSW does compile both planned and actual spending but the data is more widely available on the planned side so this is the data covered in this section. For the few countries that report on both planned and actual spending, the results are very close to one another.

The main limitations of GSW are country coverage and sectoral coverage. Eighty countries are covered out of 138 LICs, LMICs and UMICs under the World Bank's classification: 27 out of 31 LICs, 35 out of 47 LMICs and 18 out of 60 UMICs. The least well represented group of countries is therefore UMICs. On the sector coverage, GSW focuses on seven sectors which they consider most important to contribute to reducing poverty and inequality: agriculture, education, environment, gender, health, social protection and WASH (water, sanitation and hygiene).

There are major data gaps on the share of spending that is donor funded through grants and external finance disbursements. In addition, the information is not readily available in the data manipulation tool that brings together the data for all countries and sectors and instead requires consulting individual countries' databases across each sector. While this can be done, it is a lengthy exercise and given the information does not exist for many countries, we decided not to remove donor funding from the data presented in this section.

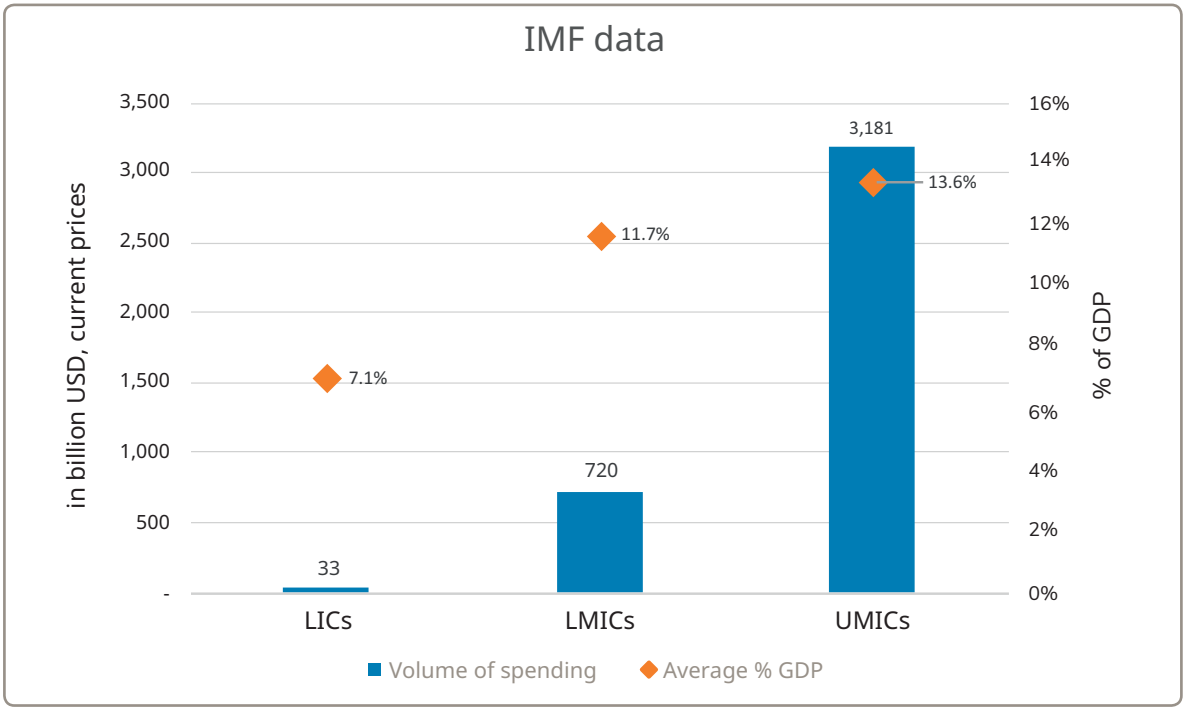
### Results

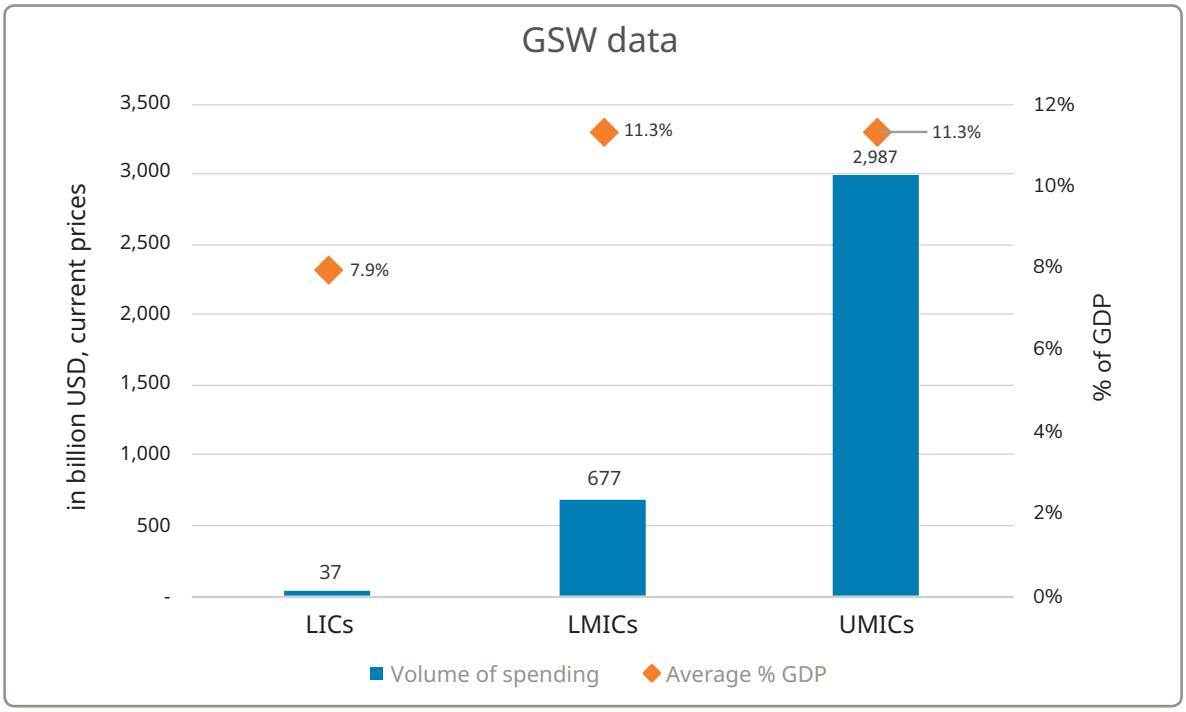
In volume terms, these data sources suggest that developing countries jointly spent somewhere between $3.7 and $3.9 trillion (current prices) annually on SDG-related sectors at the domestic level in recent years (Figure 2.5). Using IMF data, this is based on the last year of data available for countries with data and estimates calculated by authors for countries without data based on their peers' averages and applying peer averages to significant outliers. Most of this spending takes place in UMICs (81%) and LMICs (18%) with the rest in LICs (1%). Using GSW data, this is based on countries' average spending as a share of GDP toward the SDGs between 2016-18. This is then converted into USD current prices using the countries' 2018 GDP figures. We used the same approach for countries without data as mentioned for the IMF database (i.e. applying their peers' averages[13] and correcting data for Pakistan as it was a significant outlier). The distribution of spending is similar across income groups with most of the spending occurring in UMICs (80%) and the rest in LMICs (19%) and LICs (1%).

[12] https://www.governmentspendingwatch.org/spending-data

[13] There is one exception to this approach for MENA LMICs as there was no data from which to draw an average so we applied the average of all LMICs to that group of countries.

**Figure 2.5** Total domestic public spending on SDG-related sectors by income group (in billion USD, current prices) and as a share of GDP




Source: authors' calculation based on IMF COFOG and GSW

The review of data across both datasets raises three interesting additional points.

First, the distribution across country income groups varies and the expectation that the richer a country becomes, the more it spends on SDG-related expenditure is confirmed in one of the datasets, but is not as clear in the other, where there is little difference between LMICs and UMICs. The GSW finds that UMICs spend more or less the same share of GDP as LMICs, roughly 11.3%.[14] We point to the limited UMIC country coverage of the GSW as a possible reason for this result.

**Table 2.2** Average government spending toward SDG-related sectors as % GDP

| | LICs | LMICs | UMICs |
|---|---|---|---|
| IMF data | 7.1% | 11.7% | 13.6% |
| GSW data | 7.9% | 11.3% | 11.3% |

Source: authors' calculation based on IMF COFOG and GSW

Second, there are noteworthy variations across regions. For instance, we observed that LMICs in South Asia, which are home to a large share of the world population living in poverty, tend to spend a lesser share of GDP than LMICs in other regions. This is true even after excluding the big outliers of the region -- India and Pakistan – which report very low levels of spending and drag the regional average further down. We also find notable variations across the two datasets for the regions of Europe and Central Asia and Latin America and Caribbean.

And finally, the importance of China in the data analysis is striking. The change in spending volume across developing countries toward the SDGs can double with a turn of the dial in Chinese domestic spending. Because of the size of its population and economy, China is and will remain an important piece of the jigsaw in order to meet the SDGs and tackle climate change. As the country first affected by COVID-19 and experiencing a major economic slowdown, an increase in poverty in China would represent a major setback for the 2030 agenda.

[14] This is based on countries for which there is available data only.

This data analysis provides us figures for developing country public spending of somewhere between $3.7 (GSW) and $3.9 trillion (IMF COFOG) (both current prices) annually on SDG-related sectors at the domestic level in recent years. The IMF COFOG-based estimate is preferable, given the better coverage of UMICs. This is not a perfect estimate given the data problems noted above and so should not be used as a standalone estimate of current SDG spending. As mentioned earlier, Kharas and McArthur (2019) used sectoral datasets[15] to come up with an estimate of SDG domestic public spending in 2015 and arrive at a figure of approximately $7 trillion with close to $6 trillion in UMICs, $0.8 trillion in LMICs and $70 billion in LICs. This is the only study we have found which attempts to cost current spending across all developing countries. Their approach is more in depth than ours, as it uses a variety of datasets to try to get the best estimates in different sectors.

In view of our results and those of Kharas and McArthur, estimates of current government spending range between nearly $4 trillion and $7 trillion. The SDG public financing gap will be smaller if current spending is at the higher end of the range and bigger if it is at the lower end of the range. In their study, Kharas and McArthur highlight that their SDG gap estimate, which is based on this public spending figure, is smaller than in other costing studies. This would suggest other studies make a more conservative assumption regarding current spending levels.

This section has been developed in order to give us a baseline to compare the potential impact of the COVID-19 crisis. Before we do that, the next section focuses on the role played by international public spending in this sphere.

### 2.2.2 International public spending

#### *ODA*

#### Methodology

To review current ODA trends, we used the OECD Creditor Reporting System (CRS) database which provides data for ODA spent at a project level and gives details on sectoral allocation. This database compiles aid from OECD Development Assistance Committee (DAC) members which includes some of the biggest bilateral donors, as well as aid provided by multilateral organisations and some 20 non-DAC members that voluntarily report to the DAC.[16]

As this study aims to gauge the entire amount of public international finance available for sustainable development, we reviewed the flows from those three categories of donors as illustrated in Figure 2.7. However, as we also want to get a clear picture of aid actually reaching developing countries, the analysis focuses on ODA disbursements in LICs, LMICs and UMICs although we cite the overall volume of ODA where it provides a useful indication.

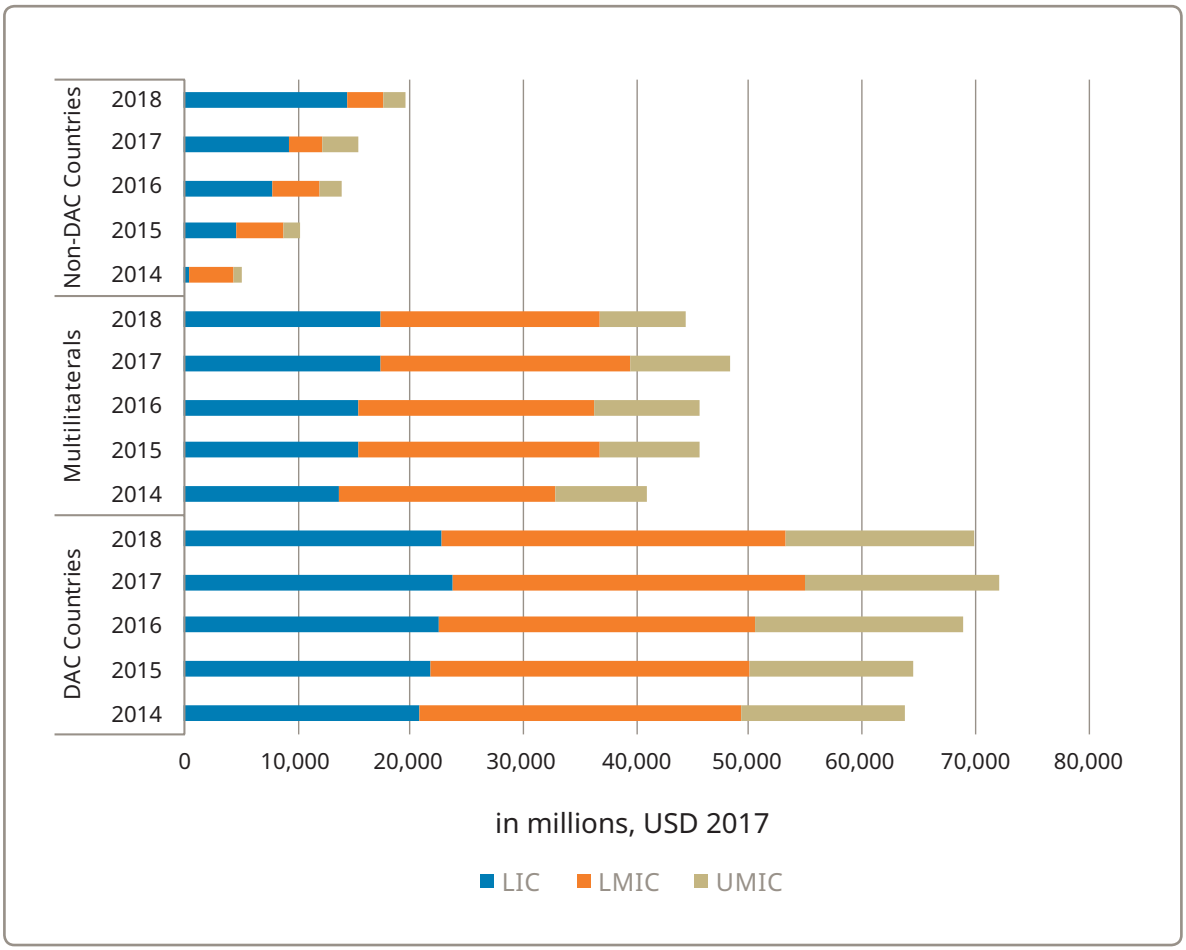
#### Results

We find that ODA from DAC members has increased year on year between 2014 and 2017 but dipped slightly in 2018, the last year of available data. This is largely due to less aid being spent on hosting refugees in donor countries as arrivals slowed and rules around which refugee costs can count as official aid were tightened (OECD, 2019). The picture is similar for multilateral aid, although LICs have seen their ODA continue to rise and stabilise in the last couple of years, as opposed to LMICs and UMICs which have seen a decrease in their volume of multilateral ODA. Non-DAC donors have consistently increased their aid disbursements, more than trebling their assistance over the past five years with a particular focus on poorer countries. This trend is mostly driven by one donor, Turkey, with the vast majority of its aid resulting from the Syrian crisis. As per Figure 2.7, we find that those three groups of donors spent a combined $133.8 billion in 2018 in LICs, LMICs and UMICs. Total ODA volume for the same year was $195.4 billion.

[15] As noted in section 1, this study differs from ours in using a wider range of sectoral datasets, rather than relying on data from one single dataset, as we have done. This allowed the authors to pick the dataset they considered most reliable for each sector.

[16] List of non-DAC countries reporting to the DAC: Azerbaijan, Bulgaria, Croatia, Cyprus, Estonia, Israel, Kazakhstan, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russia, Saudi Arabia, Chinese Taipei, Thailand, Timor-Leste, Turkey, United Arab Emirates.

**Figure 2.7** Current ODA spending by DAC donors, non-DAC donors reporting to the DAC and multilateral donors across income groups, 2014-2018 (in million USD, 2017 prices)

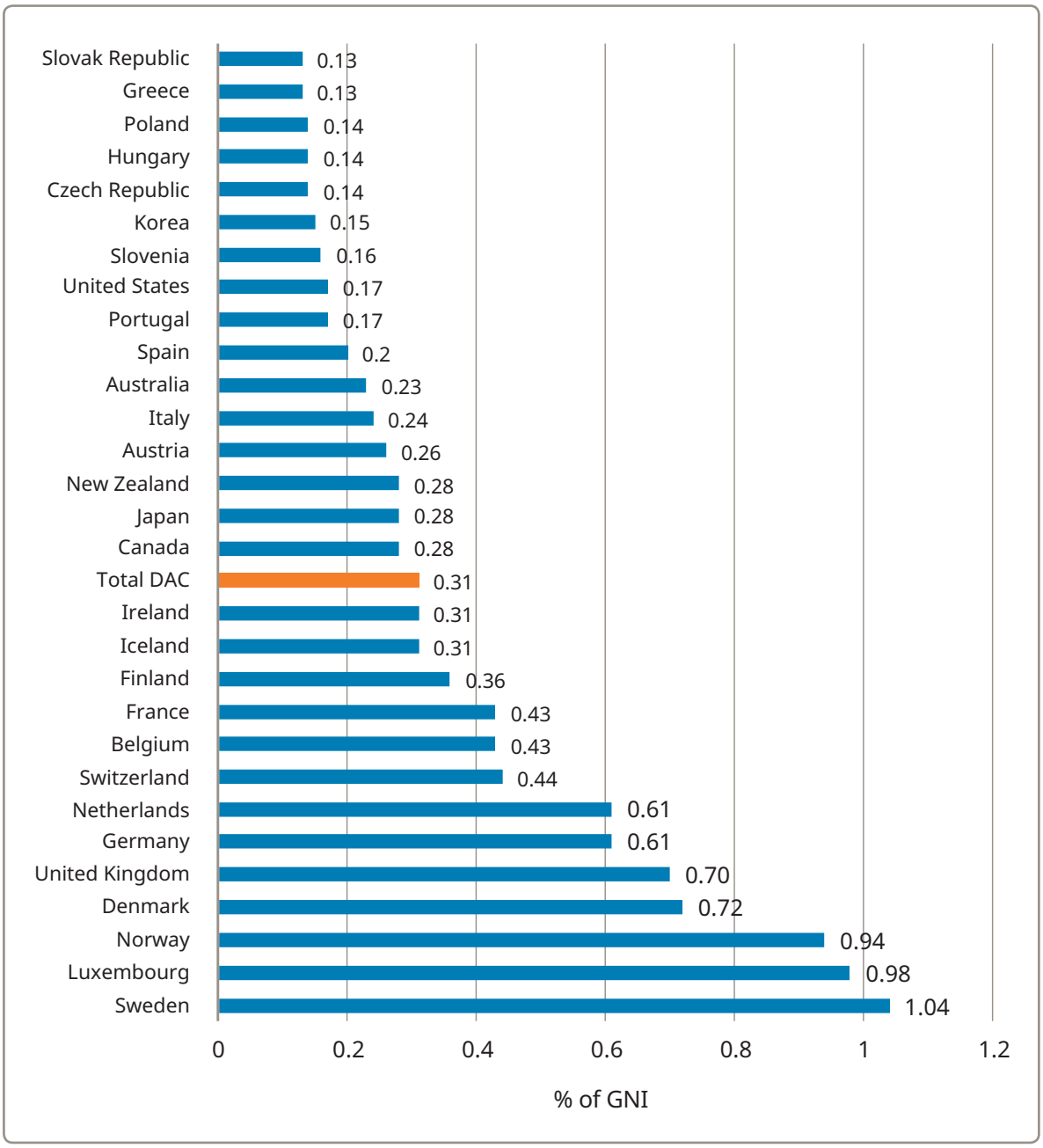



Source: OECD, CRS database

*Note: this figure does not include aid that was disbursed but not allocated to specific income groups.*

DAC members are committed to spending 0.7% of their GNI as ODA, however, only five of the 29 countries actually met this target in 2018. As a group, the DAC donors' ODA only reached 0.31% of their combined gross national income for the same year (see Figure 2.8). Were the 0.7% commitment fulfilled, DAC aid volumes would be much larger.

**Figure 2.8** Current ODA levels per DAC members as % GNI, 2018

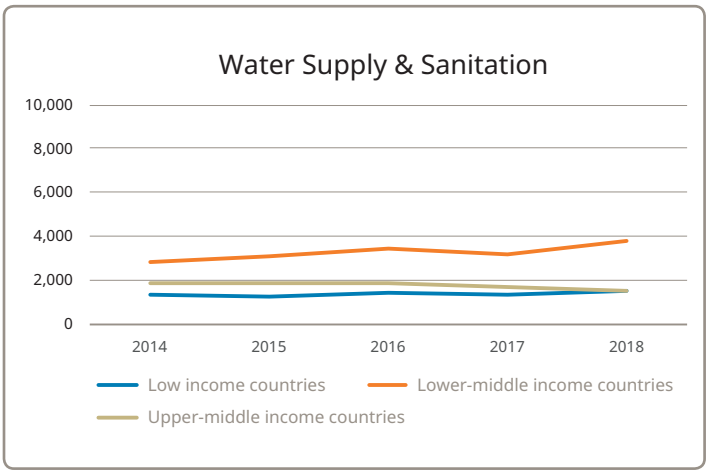


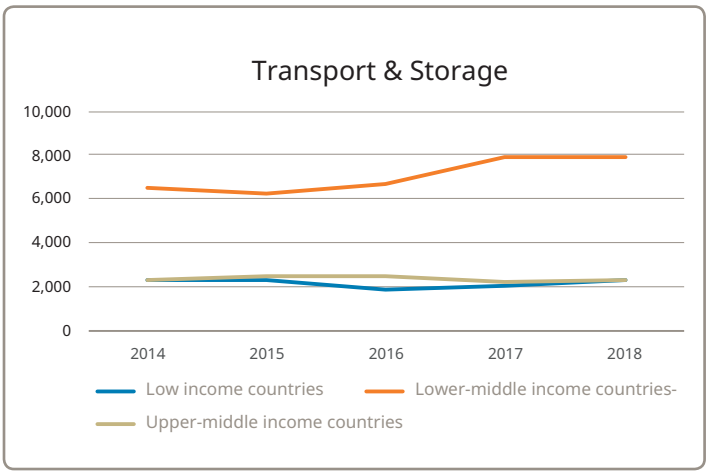

Source: OECD https://www2.compareyourcountry.org/oda?cr=oecd&lg=en

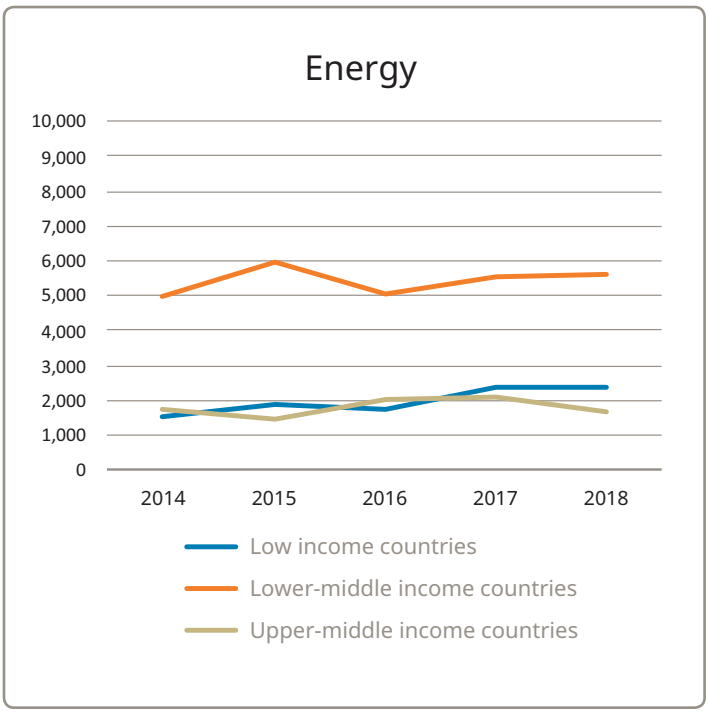
Given our interest in the interconnection between the SDGs and the climate change agenda, we took a close look at aid disbursements in a set of climate-related sectors– i.e. WASH; energy; transport; agriculture, fisheries and forestry; and, environmental protection. One assumption would be that the growing focus on climate change, at least in the public discourse, would result in an increase in the amount of aid going toward those five sectors in recent years. OECD data does not reflect that assumption however (see Figure 2.9):

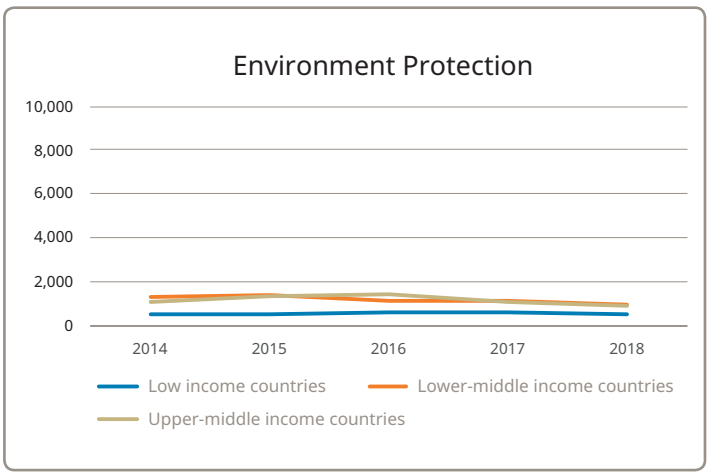
- **WASH:** aid going toward WASH activities has increased over time in LMICs which receive the largest share of that aid. UMICs saw a decline in their WASH ODA mostly driven by a retreat from DAC donors and LICs saw a slight increase over the past five years. Non-DAC donors, although relatively small players in this field, have stepped up their WASH spending across the three income groups.
- **Transport and storage:** aid to the transport and storage sector has increased in LMICs over the past five years which receive the largest share, but decreased in the other income groups.
- **Energy:** LICs are receiving more aid toward the energy sector from the three groups of donors.
- **Agriculture, fisheries and forestry:** aid to this sector has been fairly stable across income groups over the past five years.
- **Environmental protection:** aid levels have slowly decreased between 2014 and 2018 in LMICs and UMICs and stagnated in LICs. Of the deep dive sectors, this is the smallest in volume.

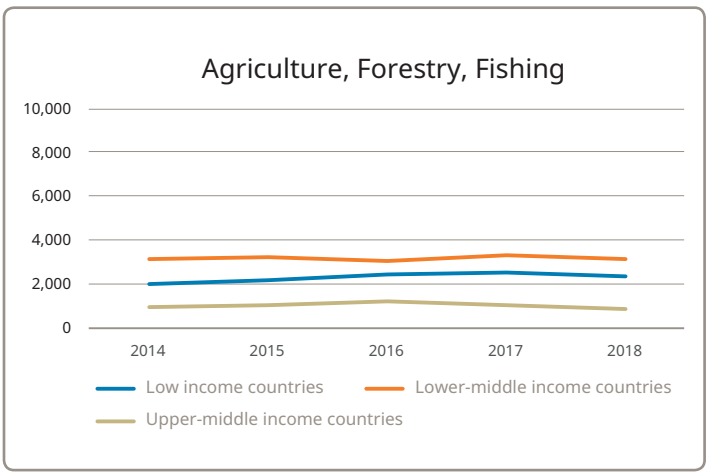
**Figure 2.9** ODA trends of DAC donors, non-DAC donors reporting to the DAC and multilateral donors in deep dive sectors, 2014-1018 (in millions USD, 2017 prices)

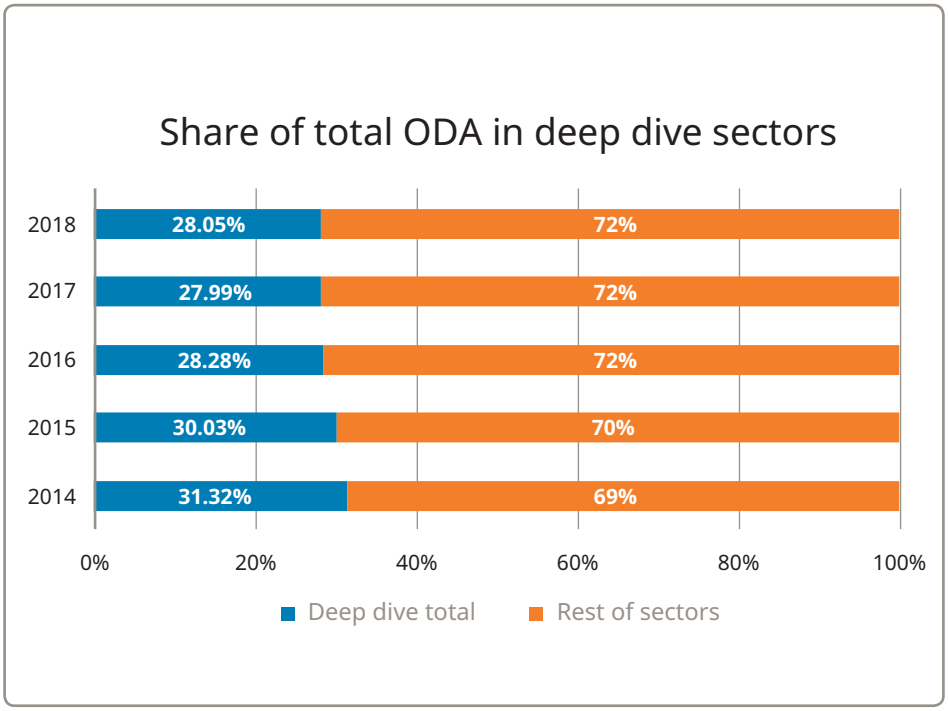


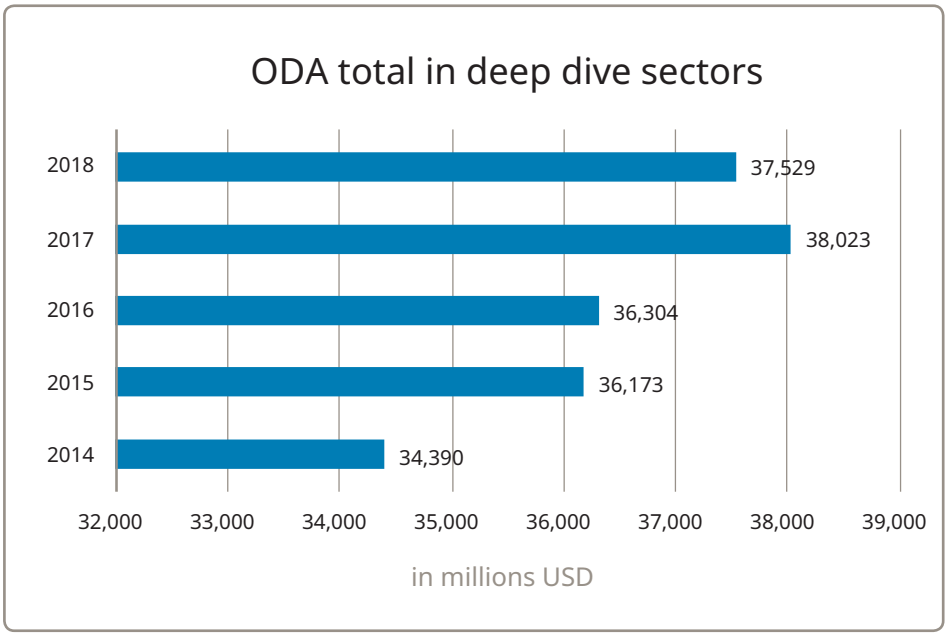






Source: OECD, CRS database

Finally, the share of total ODA[17] taken up by the five sectors has shrunk over the past five years, from 31% in 2014 to 28% in 2018.

### Climate finance

Due to the importance of tackling climate change for achieving the SDGs, it is pertinent to look separately at climate finance provided through international public finance to developing countries. Climate finance[18] is primarily disbursed as part of development finance, so a lot of it is already captured in the ODA section above. As such, the amounts mentioned here should not be interpreted as additional but discussed here to give a sense of the scale and evolution of financing dedicated to climate.

The share of climate-related ODA reported to the OECD-DAC remained stable at around 20-21% of total ODA between 2013 and 2017, after a slight increase between 2013 and 2014. During this period, the share of multilateral climate finance[19] in total multilateral outflows to ODA-eligible countries grew from 18% in 2013 to 28% of total multilateral outflows in 2017 (OECD, 2019b).

In volume terms, climate finance provided and mobilised by developed countries for climate action in developing countries reached $54.5 billion in 2017, up from $37.9 billion in 2013. This includes both bilateral and multilateral aid that is attributable to developed countries. If private climate finance mobilised is added, the total reaches $71.2 billion. Thus, this still leaves some way to go for developed countries to reach their commitment of mobilising $100 billion annually in climate finance for developing countries by 2020.

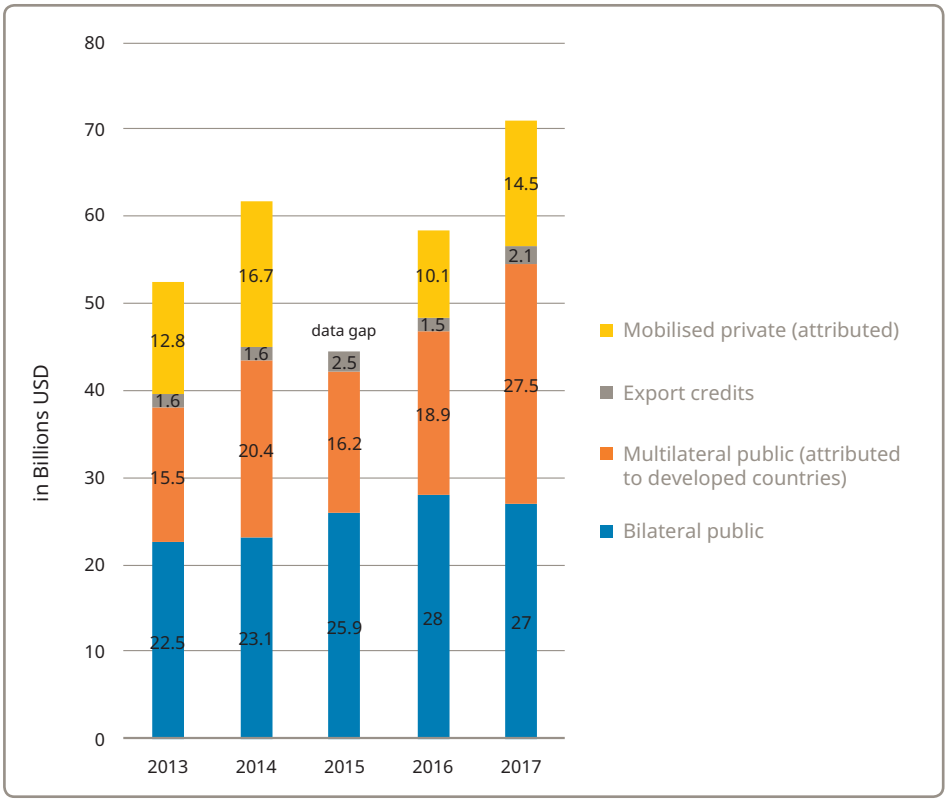



**Figure 2.10** Climate finance provided by developed countries (in USD billion)

Source: OECD, 2019 https://read.oecd-ilibrary.org/environment/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-17_39faf4a7-en#page15

[17] Total ODA as reported in the CRS database.

[18] Climate finance is 'finance that aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts', as defined by the United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance.

[19] This refers to the share of multilateral public finance that is attributable to developed countries, therefore counting toward the 100 USD billion goal.

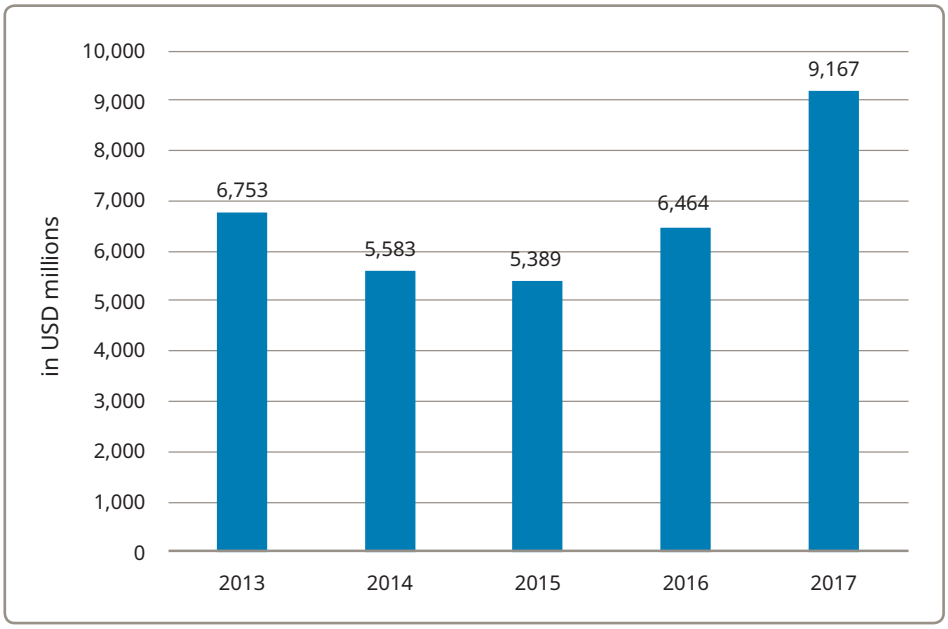
The share of adaptation in 2016-17 was significantly higher for LDCs (45%) and SIDS (43%) than for all developing countries (22%) and also higher than developing countries that qualify as UMICs or HICs (16%). The thematic allocation of bilateral climate finance is broadly the same as in 2013: mitigation represents two-thirds and adaptation a little over 20% with the remaining corresponding to activities that cut across both. The split in multilateral climate finance has evolved since 2013 with the share of adaptation increasing from 20% to 27% in 2017, while the share of mitigation decreased from 75% to 69% in the same period (OECD, 2019b).

### South-South cooperation

There is no official source of data for South-South cooperation or mutually agreed method for reporting such flows. As such, data is scarce, and we find wide variations across sources. We rely on OECD data to illustrate the trend of 10 large Southern donors[20] over the last five years and on AidData's database of Chinese assistance to look more closely at the sectoral allocation of Chinese aid. As noted previously, results vary across the databases with the OECD estimating that China spent $3.4 billion in gross concessional flows for development cooperation in 2014 while AidData compiles projects of an ODA-like nature adding up to $6.8 billion for the same year in LICs, LMICs and UMICs. The numbers described below should therefore be understood as estimates and treated with care.

According to OECD data, gross concessional flows for development cooperation from Southern donors declined between 2013 and 2015 to a low of $5.3 billion and rebounded to $9.2 billion in 2017. China and India are by far the largest donors, making up over 80% of the total in 2017.

**Figure 2.11** South-South cooperation, 2013-2018 (in million USD)




Source: OECD, Development Co-operation Report 2019

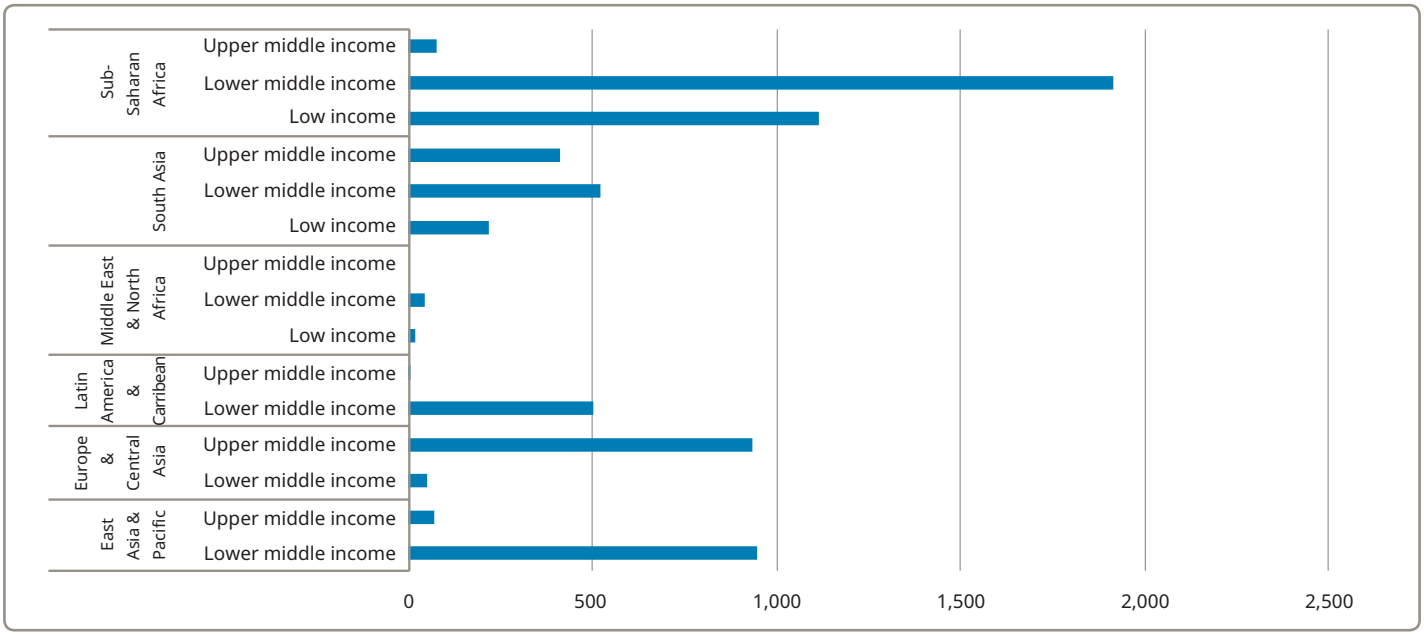
Data covers the following donors: Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Mexico, Qatar and South Africa.

[20] Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Mexico, Qatar and South Africa.

AidData have compiled a database of Chinese Foreign Aid which aims to record aid projects in the same style as the OECD CRS database. Data is only available from 2000 to 2014. Below are the highlights of Chinese ODA equivalent spending for the last year of data.

In 2014, China spent $6.8 billion in ODA equivalent assistance. China's presence was most prevalent in sub-Saharan Africa, in particular in LMICs (see Figure 2.12).

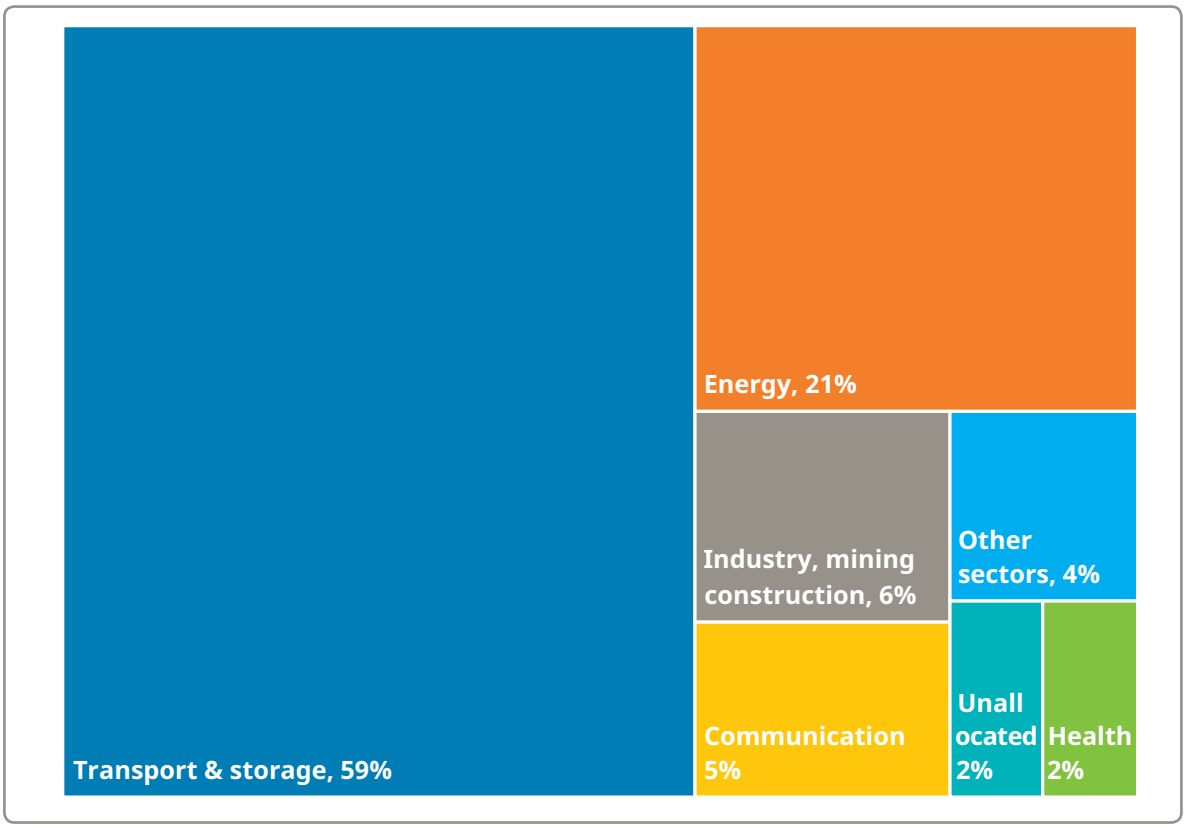
**Figure 2.12** China's ODA equivalent distribution by region and income groups, 2014 (in million USD, 2014 prices)




Source: AidData, 2017, Global Chinese Official Finance Dataset, Version 1.0. Retrieved from http://aiddata.org/data/chinese-global-official-finance-dataset

China spent over 90% of its assistance in four sectors: Transport & storage; Energy; Industry, mining, construction; and communications. Three of those match our deep dive sectors and therefore have the potential to make important contributions toward tackling climate change (Figure 2.13).

**Figure 2.13** China's ODA-equivalent sectoral distribution in 2014 (in million USD, 2014 prices)




Source: AidData, 2017, Global Chinese Official Finance Dataset, Version 1.0. Retrieved from http://aiddata.org/data/chinese-global-official-finance-dataset

### 2.2.3 Summary

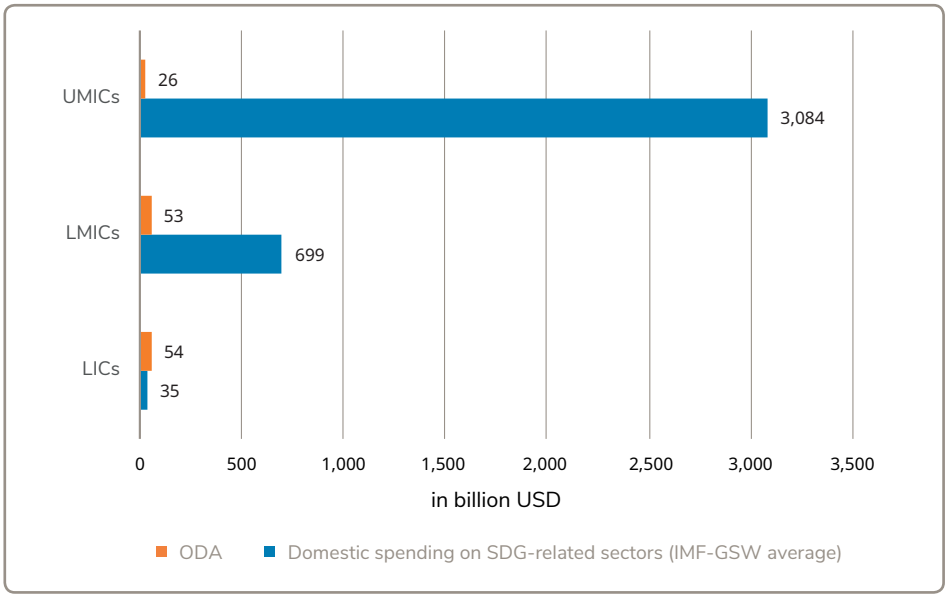
Based on the current trends reviewed in this section, we estimate that over $4 trillion were spent through public domestic and international resources toward SDG related activities in 2018 (Table 2.2), this is equivalent to 3% of global GDP in 2018 and 5% of developing countries' GDP for the same year. Putting those figures side by side reminds us of the relative importance of each flow. Domestic spending is by far ahead of all other sources and will remain the key resource for financing the attainment of the SDGs.

**Table 2.2** Summary of current public financing toward SDG-related activities

| | **In billion USD (for last year of data available)** |
|---|---|
| I. Domestic spending on SDG-related sectors (IMF COFOG data) | **3,934.2** |
| II. ODA to LICs, LMICs and UMICs (DAC, Multi and non-DAC reporting donors) (2018) | **133.8** (Total ODA gross disbursements were 195.4) |
| III. Climate finance (2017) * | 54.5 |
| IV. South-South cooperation (2017) | **9.2** |
| **TOTAL (I+II+IV)** | **4,132** |

However, the picture is more complex across income groups. As per Figure 2.14 below, middle-income countries will already receive a fraction of ODA toward SDGs in comparison with their domestic public spending, suggesting they will need to continue relying on their own resources to achieve the SDGs in future. Inversely, as a group, we find that the volume spent by LICs on SDG-related sectors is lower than the volume of ODA they receive overall for all sectors. Using Kharas and McArthur's (2019) data which puts LIC's SDG domestic spending at $70 billion, ODA would fall behind domestic spending but ODA would remain a very substantial source of public financing given it amounted to $54 billion in 2018. The main point to emphasise is that ODA is a very significant resource for public SDG expenditure in LICs, at a similar level of importance as domestic public expenditure.

**Figure 2.14** Scale of domestic public financing targeted at SDG-related sectors and ODA in 2018 (DAC, Multi and non-DAC reporting donors) across income groups




Source: Authors' calculation

## 2.3 Scenarios and impact of COVID-19

Based on the current trends, we project the size of public finance flows in the coming years across two scenarios: one of business as usual if current trends were to continue based on pre-COVID-19 data, and one which applies the same assumptions but uses the latest IMF economic forecasts which start to reflect the impact of COVID-19. The objective is to make an initial quantification of how much COVID-19 will increase the gap and set back public financing for the SDGs, at least in the immediate future.

**Table 2.3** Scenario assumptions

| Scenarios | Assumptions | Data source |
|---|---|---|
| Scenario 1 – BAU pre COVID-19 | This scenario assumes current levels of spending will continue, as observed in section 2.2. Using the last IMF GDP forecasts pre COVID-19, we calculate how much domestic spending and development finance would be spent on SDG-related sectors in 2021 if the ratio of spending to GDP remained constant. | IMF WEO 2019 (October 2019) |
| Scenario 2 – BAU post COVID-19 (as of April 2020) | This scenario makes the same assumption but uses more recent IMF GDP forecasts which take into account the economic impact of COVID-19. | IMF WEO 2020 (April 2020) |

*Note: The time horizon for the projections only go as far as 2021 as our scenarios are based on IMF GDP forecasts which stop in 2021. We use the same assumptions to estimate spending in 2019 which provides a baseline for the scenarios.*

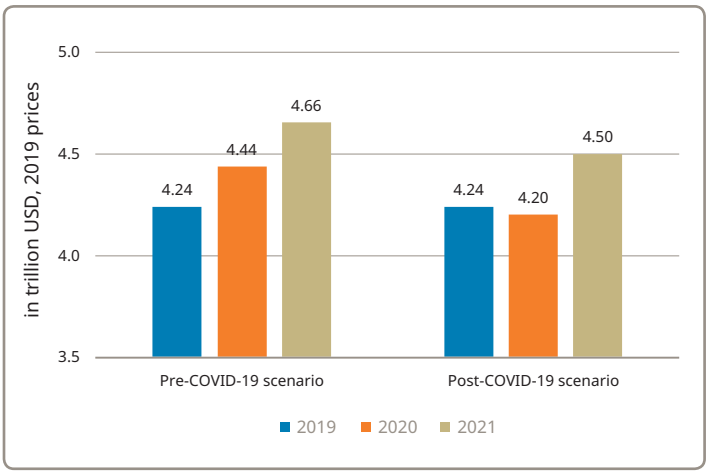
We draw on the IMF World Economic Outlook of April 2020 to build the post-COVID-19 scenario. The April WEO projected a global recession in 2020, followed by a rebound in 2021 albeit with the level of GDP below the pre-virus trend. It was built on the assumption that 'the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound'. The WEO also warned that 'much worse growth outcomes are possible and maybe even likely'. We therefore consider the post-COVID-19 scenario to be on the optimistic side, particularly given that other international estimates, such as those done by the UN are more pessimistic.[21] This was confirmed when the IMF issued its WEO update in June, which forecast that developing and emerging economies would be worse affected in both 2020 and 2021 than the IMF had forecast in April. The June update does not provide the full dataset of countries, so the report relies on the April dataset. This reinforces the message that this research underestimates the scale of the problem facing developing countries. The IMF's June update forecasts that developing and emerging economies will shrink by 3.0% in 2020 (2.0% worse than their April estimate) and grow by 5.9% in 2021 (0.7% lower than their April estimate.)[22] These assessments may also be regarded as optimistic given the growing economic impact of the pandemic.

### 2.3.1 Domestic public spending

- IMF data

If government expenditure allocations were to remain constant as a share of GDP, and IMF forecasts are accurate, public domestic resources targeted at SDG-related sectors in LICs, LMICs and UMICs would increase from $4.24 trillion to $4.66 trillion in 2021 under a pre-Covid-19 BAU scenario and $4.5 trillion in 2021 under a post-Covid-19 BAU scenario (see Figure 2.15).

**Figure 2.15** Scenarios of domestic spending toward SDG-related sectors in 2019, 2020 and 2021 (IMF data)

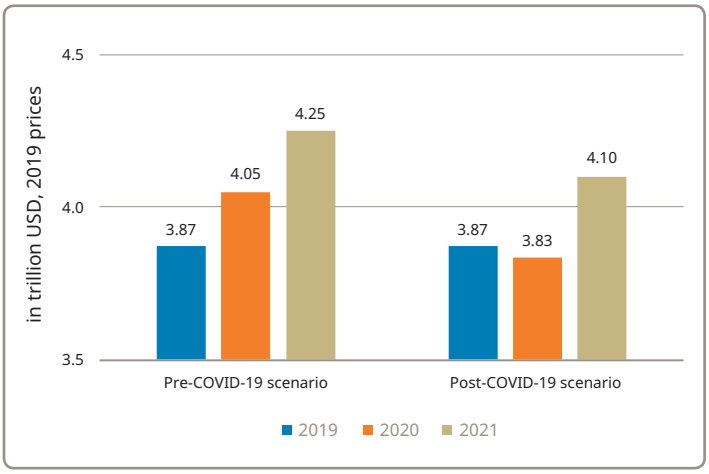



Source: Authors' calculation

- GSW data

Under the same set of assumptions, public domestic resources targeted at SDG-related sectors in developing countries would increase from the $3.87 trillion in 2019 to $4.25 trillion in 2021 under a pre-Covid-19 BAU scenario and $4.1 trillion (2019 prices) in 2021 under a post-Covid-19 BAU scenario (see Figure 2.16).

**Figure 2.16** Scenarios of domestic spending toward SDG-related sectors in 2020-21 (GSW data)




Source: Authors' calculation

[21] https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-as-of-mid-2020/ [accessed 16/6/20 at 09:32]

[22] https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020 [accessed 29/06/20 at 18:43]

**Summary**

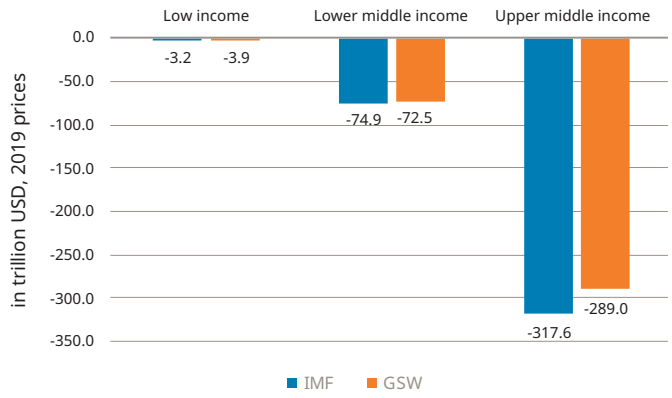
The table below summarises the difference in spending between the two scenarios. In the post-COVID 19 scenario, we find that governments will spend $396 billion less than they would have had COVID-19 not happened with the IMF dataset and $365 billion less with the GSW dataset.

**Table 2.4** Shortfall for 2020 and 2021 between Post-COVID-19 and Pre-COVID-19 scenarios (in billion USD, 2019 prices)

| | IMF | GSW |
|---|---|---|
| Shortfall 2020-21 | -395.8 | -365.4 |

Figure 2.17 disaggregates this shortfall across income groups making it obvious that UMICs will be hardest hit in volume terms.

**Figure 2.17** Shortfall for 2020-21 between Post-COVID-19 and Pre-COVID-19 scenarios across income groups




Source: Authors' calculations based on IMF WEO 2019 and 2020

To put the shortfall figures into perspective, this represents roughly a 10% hit to domestic spending on SDG related sectors compared to our 2019 baseline in each of the three income groups.

What this shows is that the impact will be felt fairly evenly across all income groups. As mentioned earlier, the latest IMF GDP forecasts which capture the impacts of COVID-19 appear to be rather optimistic so the reality is likely to be starker. For LICs where domestic spending is already far from sufficient to meet citizens' needs, a potential 10% cut in spending accompanied by a possible drop in ODA (see following section) will represent a setback in efforts to meet the SDGs and could potentially compromise them altogether given the trends over the past five years which indicated the world was already not on track to meet the goals. For MICs, the challenge will be a great one and without major financial support, especially in LMICs, poverty levels will increase in many of those countries.

### 2.3.2 International public spending

The COVID-19 crisis will no doubt have an impact on the availability of international development finance. Looking back at the global financial crisis of 2009, ODA levels from DAC donors decreased between 2010 and 2012 when donor countries were putting in place stringent domestic spending measures to deal with the economic crisis they were going through.

A similar outcome could happen this time round, especially as the economic impact of the COVID-19 will be most severe in advanced economies (IMF, 2020) and they focus their public finances on limiting the economic and social impacts of the pandemic.

This section follows the same approach as the one on domestic spending. We compare the business as usual scenario before and after (or during) the COVID-19 to estimate the shortfall in 2020 and 2021.

**Table 2.5** Scenario assumptions

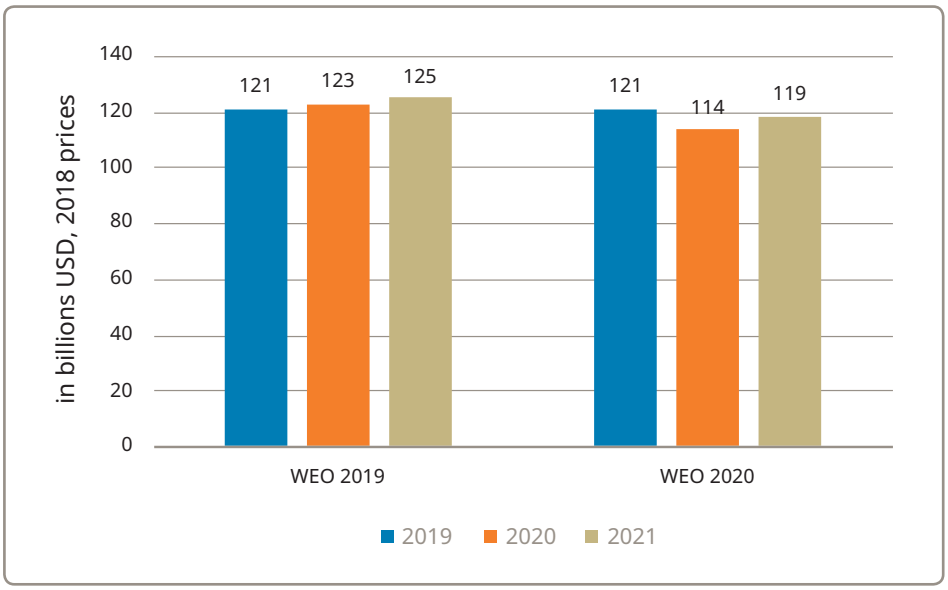
| Scenarios | Assumptions | Data sources |
|---|---|---|
| Scenario 1 – BAU pre COVID-19 | **ODA for DAC and non-DAC donors:** donors continue to spend the same share of ODA to GNI. We project future ODA levels using IMF annual GDP growth forecasts assuming that GNI will grow in line with GDP.<br>**Multilateral ODA** continues to represent the same size relative to DAC and non-DAC reporting donors. Using our projections to DAC and non-DAC donors, we calculate multilateral projections.<br>**South-South Cooperation** donors continue to spend the same share of their GDP in ODA-like finance. | OECD CRS; IMF WEO 2019 and 2020 |
| Scenario 2 – BAU post COVID-19 (as of April 2020) | **ODA for DAC and non-DAC donors:** donors continue to spend the same share of ODA to GNI. We project future ODA levels using IMF annual GDP growth forecasts assuming that GNI will grow in line with GDP.<br>**Multilateral ODA** continues to represent the same size relative to DAC and non-DAC reporting donors. Using our projections to DAC and non-DAC donors, we calculate multilateral projections.<br>**South-South Cooperation** donors continue to spend the same share of their GDP in ODA-like finance | OECD CRS; IMF WEO 2019 and 2020 |

**ODA**

## DAC donors

As DAC donors' GDP growth forecasts were revised downward in the latest WEO, one would expect ODA levels to decline over the coming years assuming donor governments react in a similar way to the global financial crisis. As per figure 2.18, there would be a reduction of $10 billion in 2020 and of $6 billion in 2021 for the whole of ODA if DAC donors continue to give the same share of ODA to GNI. But if donors were to spend a smaller share, the difference would be greater and ODA would decrease by more.

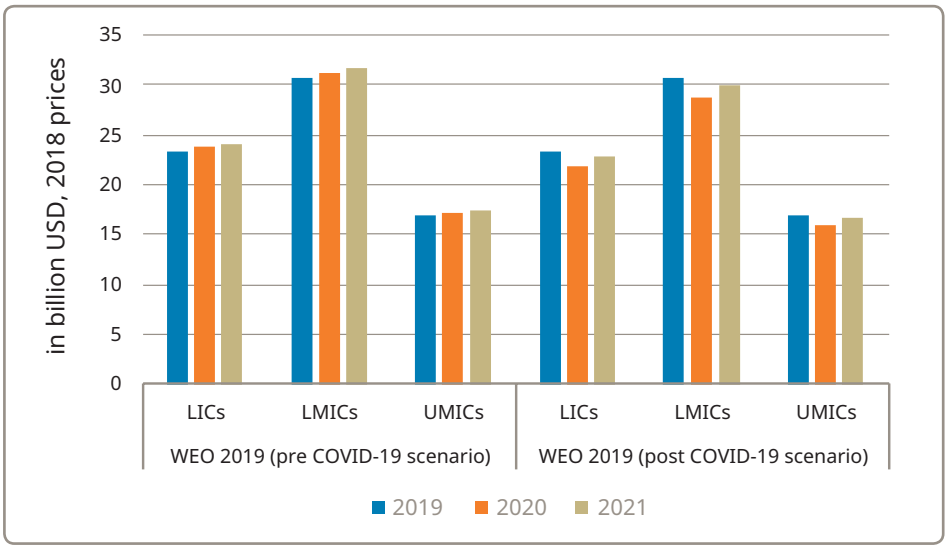
**Figure 2.18** DAC total ODA disbursement scenarios in 2019, 2020 and 2021




Source: authors' calculations based on OECD data Table DAC 2a ODA/GNI data and IMF GDP forecasts in the 2019 and 2020 WEOs

As figure 2. 19 below shows, this would represent a shortfall of $9.3 billion in the group of countries that fall under the World Bank classification of LICs, LMICs and UMICs for the years 2020 and 2021. This assumes that the ratio of ODA currently reported in the CRS database as spent in our set of recipient countries remained constant as a share of total ODA.[23]

**Figure 2.19** Scenarios of DAC ODA disbursement in LICs, LMICs and UMICs in 2020-21



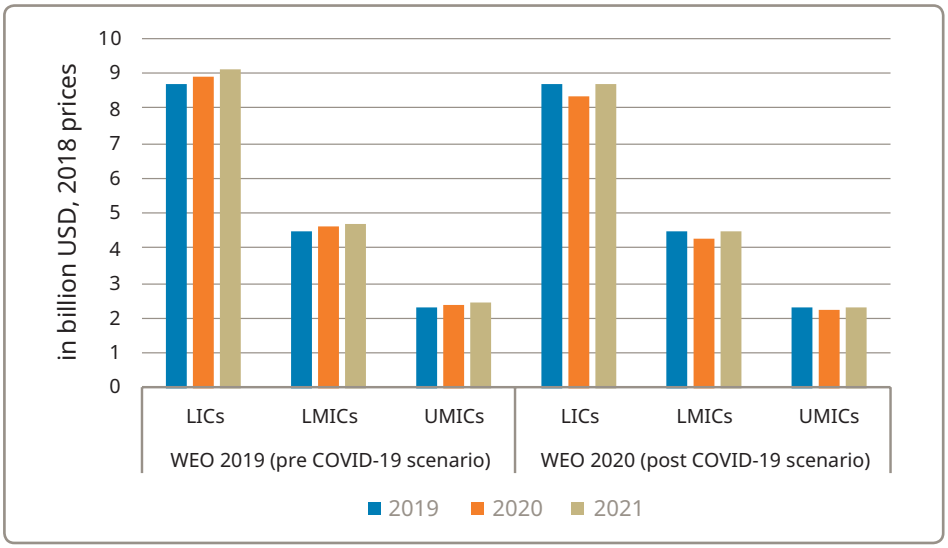

Source: authors' calculations based on OECD data

[23] Total ODA includes bilateral aid but also aid that has no clear recipient (e.g. disbursed at a regional level), contributions to multilateral organisations or ODA that is spent in the donor country (e.g. some refugee costs). Here, we are interested in the amounts that would reach LICs, LMICs and UMICs if the same share of total ODA continued being spent on programmes in those countries.

## Non-DAC donors

Based on the same set of assumptions as described for DAC donors, we estimate that non-DAC donors currently reporting to the DAC would provide $42.5 billion over the course of 2020 and 2021 under the pre-COVID scenario and $40.1 billion under the post-COVID scenario for the same years (see Figure 2.19). The shortfall in non-DAC donor aid between the two scenarios would therefore be in the region of $2.4 billion with the largest shortfall taking place in LICs.

**Figure 2.19** Scenarios of non-DAC ODA disbursement in LICs, LMICs and UMICs in 2020-21

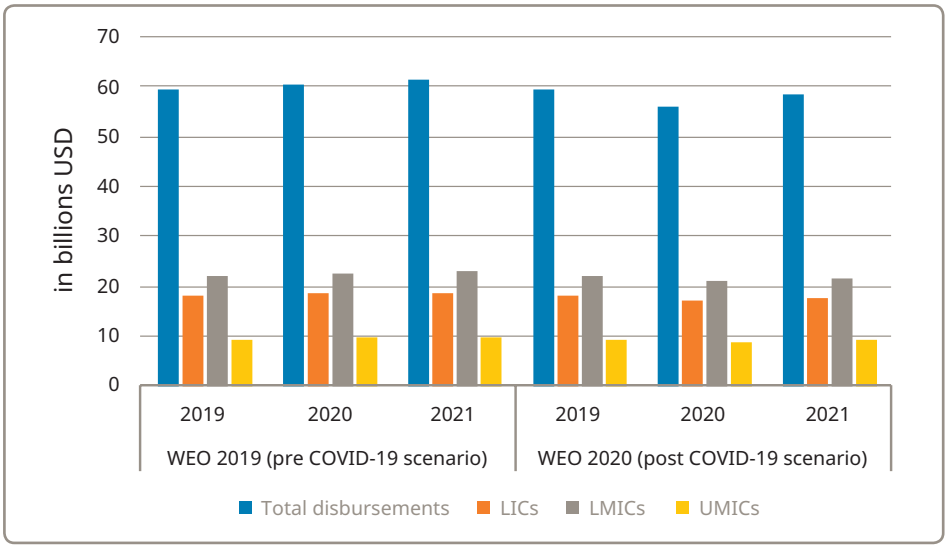



Source: authors' calculations based on OECD data and IMF 2019 and 2020 WEO GDP growth forecasts

## Multilateral donors

Unlike DAC donors or non-DAC donors, we cannot apply a GDP growth rate to multilateral spending as it is not a country with a forecast. Instead, we have calculated the size of multilateral ODA relative to non-multilateral ODA over the last five years of data and applied this to our estimates for DAC and non-DAC donors. On average, multilateral aid represented around 42% of DAC and non-DAC ODA combined with some slight variation across income groups which are reflected in the data. We therefore applied this to our estimates of future DAC and non-DAC donors. We recognize that this is a crude calculation.

**Figure 2.20** Scenarios of multilateral ODA disbursements in 2019, 2020 and 2021



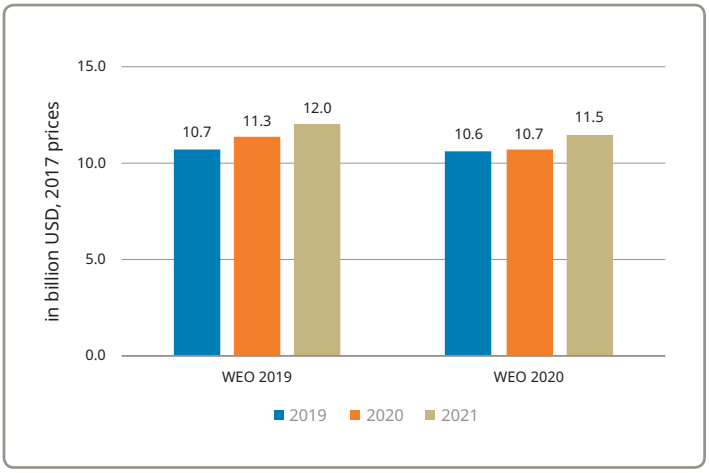

Source: Authors' calculation based on OECD CRS data

We estimate that multilateral donors currently reporting to the DAC would provide $122 billion over the course of 2020 and 2021 under the pre-COVID scenario and $115 billion under the post-COVID scenario for the same years (see Figure 2.20). The shortfall in multilateral aid between the two scenarios would therefore be in the region of $7.7 billion. At the income group level, LICs would receive $2.3 billion less in the post-COVID scenario compared with the pre-COVID scenario, LMICs $2.9 billion less and UMICs $1.2 billion less.

## South-South Cooperation

Based on estimates compiled by the OECD of gross concessional flows for development co-operation for 10 of the major Southern donors and assuming that those countries continue to spend the same share of their GDP in ODA-like finance, we conclude they would provide $23.3 billion (2017 prices) under the pre-COVID scenario and $22.2 billion under the post-COVID scenario over 2020 and 2021. The shortfall over those two years would amount to $1.1 billion. The OECD does not allow for a disaggregated view across income groups.

**Figure 2.21** South-South cooperation gross concessional flows scenarios, 2019, 2020 and 2021




Sources: Authors calculations based on OECD DCR 2019

**Summary**

If international public finance of a concessional nature remains at similar levels as a proportion of donor GNI from DAC donors, non-DAC donors and multilateral donors reporting to the DAC and South-South cooperation we estimate it would be $27.1 billion lower than would have been under the business as usual scenario before COVID-19. The shortfall would be greatest in 2020 which we estimate at $16 billion, coming down to $11.1 billion in 2021.

**Table 2.6** Shortfall for 2020 and 2021 between Post-COVID-19 and Pre-COVID-19 scenarios (in billion USD, 2019 prices)

| **Shortfall in 2020 and 2021 (in billion USD)** | **DAC** | **Non-DAC** | **Multilateral** | **South-South cooperation** | TOTAL |
|---|---|---|---|---|---|
| Shortfall in LICs | -3.1 | -1.0 | -2.3 | no data | |
| Shortfall in LMICs | -4.0 | -0.5 | -2.9 | no data | |
| Shortfall in UMICs | -2.2 | -0.3 | -1.2 | no data | |
| **Total shortfall for disbursements in LICs, LMIC & UMICs** | **-9.3** | **-1.8** | **-6.4** | no data | **> -17.5** |
| **Total shortfall for all ODA/ODA like disbursements*** | **-16.9** | **-2.4** | **-7.7** | **-1.1** | **-27.1** |

** This is the totality of disbursements which include disbursements that are not allocated to specific income groups or countries (e.g. regional aid), contributions to multilateral organisations or ODA that is spent in the donor country (e.g. some refugee costs).*

For aid disbursed directly in LICs, LMICs and UMICs, our results show a shortfall of $10.3 billion in 2020 and $7.2 billion in 2021.

## 2.4 Concluding remarks

The table below summarises the main findings of this section. It clearly shows the importance of domestic resources relative to public international finance of a concessional nature. Although, as acknowledged earlier, LICs will continue to rely to a greater extent on ODA.

**Table 2.7** Summary of future scenarios for public financing toward SDG-related activities

| | **Current levels of spending In billion USD** | **Baseline 2019** | **BAU scenario pre-COVID 19** | | **BAU scenario post-COVID 19** | | **Shortfall** | |
|---|---|---|---|---|---|---|---|---|
| | | **2019** | **2020** | **2021** | **2020** | **2021** | **2020** | **2021** |
| I. Domestic spending on SDG-related sectors (average of IMF and GSW data results) | **3,817**<br>(mostly 2017-18) | **4,056** | **4,245** | **4,455** | **4,015** | **4,300** | **-230** | **-155** |
| II. Total ODA (DAC, Multi and non-DAC reporting donors) | **195.4**<br>(2018)<br>Of which ODA to LICs, LMICs and UMICs 133.8*<br>(2018) | **201**<br>136.1 | 204.7<br>138.4 | 208.2 | 189.3 | 197.6 | -15.4 | -10.6 |
| III. South-South cooperation | **9.2**<br>-2017 | **10.6** | **11.3** | **12.0** | **10.7** | **11.5** | **-0.6** | **-0.5** |
| **TTAL (I+II+III)** | **4,022** | **4,268** | **4,461** | **4,675** | **4,215** | **4,509** | **-246.1** | **-166.1** |

** ODA figure is taken from CRS database for the LIC, LMIC and UMIC World Bank income groups. It is therefore lower than the total of ODA for 2018 which was estimated at 153 billion USD for DAC members only. ODA scenarios however are based on total ODA as we rely on the ODA to GNI ratio and this applies to all ODA.*

Under the post-COVID-19 scenario, the equivalent of 10% of domestic spending in SDG related sectors under our 2019 baseline scenario would evaporate over two years (2020 and 2021) in LICs, LMICs and UMICs. The year 2020 will see the greatest impact, then things improve slightly in 2021 if the IMF's optimistic assessments of future growth are accurate.

By 2021, ODA would be lower than in our 2019 baseline. It would start to recover and the 2021 shortfall declines compared to 2020 in the post-COVID-19 scenarios. ODA going to LICs, LMICs and UMICs in 2021 will return to levels similar to 2018 meaning that three years of ODA growth vanish compared to our counterfactual.

As mentioned in section 2.2.2, climate finance is primarily disbursed as part of development finance, so the impact of COVID-19 is largely reflected in the ODA scenario projections. As a reminder, a little under a third of ODA reported to the OECD CRS database was spent in climate related sectors in 2018.

South-South cooperation is affected by the COVID-19 crisis but will continue to grow, albeit more slowly than in the pre-COVID-19 scenario.

Overall, we estimate a total shortfall in domestic and international public resources of over $400 billion over this year and the next. $246 billion of this would be in 2020 alone. This is equivalent to more than two years of ODA provided by DAC, non-DAC and multilateral donors based on current spending.

Our scenarios stem from GDP forecast figures for 2020 and 2021 and try to give a sense of the scale of the public financing setback toward the SDGs. We report the setback for each of the years in our scenarios but recognise that the impact on spending (both domestic and international) will probably materialise with a delay in time as 2020 commitments were made before the COVID-19 crisis. In practice, we might therefore start to see the bulk of the cuts in 2021 and continue in the following years.

**Discussion**

It is worth remembering that the IMF 2020 forecasts are, of their own admission, quite optimistic. Should their forecasts be revised downward, the shortfall we describe in this paper would increase, further widening the public financial gap to fund the SDGs.

The limitation of the numbers in the scenarios is that they give a macro-level view. What they do not show is the change in sectoral allocation of funding within SDG-related sectors. Given the current COVID-19 crisis, public spending will presumably shift toward sectors that help provide emergency response measures. This may lead to the starving of resources for some sectors which are deemed less essential, and create long-term effects for the achievement of the SDGs in those sectors. Even within priority sectors, spending may move away from long-term investment to focus on short-term needs jeopardizing progress toward the SDGs as well.

Considering these numbers alongside the public finance gap discussed in Part 1, the COVID-19 crisis will take public financing dramatically further away from filling the SDG financing gap. The hit to developing countries' own domestic resource mobilization suggests that international public resources will have to play a larger role in filling that gap than at present. The next section therefore examines ways in which international public financial resources for developing countries could be substantially increased, focusing on non-debt creating flows.

# Section 3: Additional sources of non-debt creating international public finance flows

This section provides a summary of existing proposals for raising additional international public revenue to respond to the dramatic worsening of prospects and the urgent need to help fill the SDG public financing gap which do not create additional debts for developing countries. Each proposal has been assessed in terms of:

- The scale of new and additional financing that it could raise.
- Advantages and drawbacks of the option
- Extent to which it exists already and what would need to happen for potential to be realized in full.

We have aimed to be as comprehensive as possible and consider all options that have been proposed. We have not created our own proposals or modified existing proposals, summarizing instead proposals that have already been substantively developed by others. Options for raising additional domestic resources have been covered in previous sections.

This agenda – finding new and additional sources of international development finance – has been the focus of the Leading Group on Innovative Financing.[24] The Leading Group defines innovative financing thus:

> *"Innovative financing refers both to innovative sources of financing – which allows for raising new and additional resources of development finance as a complement to traditional aid – and innovative mechanisms of financing – which help to create incentives and increase the impact of existing resources (e.g. through partnerships with the private sector)."* (UNDESA 2019)

We are focusing here on the first part of this agenda – i.e. where the 'new and additional' sources of public development finance could come from, focusing on international sources. The Leading Group has been less active in recent years and has not recently produced major proposals itself.

## 3.1 Taxation-based options

These are proposals for taxation which could be earmarked to fund the SDGs. The important point to remember is that these are taxes that would be raised in developed countries, and the extent to which they could support the implementation of the SDGs in developing countries depends on whether proceeds could be earmarked for this purpose.

### Financial transaction taxes

A financial transaction tax (FTT) is a small tax on each trade of stocks, derivatives, currency and other financial instruments (Institute for Policy Studies 2011).[25] The most frequently discussed types of FTTs are currency transaction taxes and securities transaction taxes.

#### Potential Scale

The potentially large base of currency and securities transaction taxes provides an opportunity to raise substantial revenue with a low-rate tax. A recent estimate of a global FTT put the total revenue that could be raised from a tax of 0.1% on trading stocks and bonds and 0.01% on derivatives, after allowing for evasion and avoidance and other reactions of market participants, at $238-$419 billion, with a base case of $327 billion, or 0.43% of global GDP. This accords with some earlier estimates.[26]

[24] The Leading Group is composed of states, international organisations and non-governmental organisations: http://www.leadinggroup.org/rubrique20.html

[25] Types of "Financial transaction taxes" include a securities transaction tax, a currency transaction tax, a capital levy or registration tax, a bank transaction tax, insurance premium taxes and a real estate transaction tax (Matheson 2011, 5–7).

[26] For example, a 2011 IMF Working Paper estimated that a low-rate CTT of 0.005–0.01% on the four major trading currencies was estimated to raise roughly 0.05 per cent of world GDP, while a one basis point (0.01%) STT on global stocks, bonds and derivatives could raise approximately 0.4 percent of world GDP (Matheson 2011, 37).

Most of this would be raised in the developed world, with $72 billion of the total accruing to the USA, and $120 billion to the EU (Pekanov and Schratzenstaller 2019, 46). The authors present these as 'lower-bound' estimates due to high allowance for evasion, and lack of data for some instruments and countries.

In the UK, the Robin Hood Tax campaign proposal, developed by Professor Avinash Persaud, for a UK-wide FTT, is estimated to raise around £4.7 billion per year. This would extend the existing FTT on share issuance, which raises £3.5 billion per year, by eliminating exemptions and extending it to cover equity, derivative and debt instruments (Persaud 2017).[27] The campaign also calls for half of this to be earmarked for international development.

**Assessment**

In addition to the significant revenue potential of FTTs, they are also supported by some for their potential to increase financial stability (Institute for Policy Studies 2017) and discourage short-term financial speculation and reduce risks in finance markets including by helping to prevent asset price bubbles (Pekanov and Schratzenstaller 2019, 3–7), though these impacts are reduced for the very low-rate options discussed above. Technological advances have made the collection of a financial transaction tax much easier than before (Institute for Policy Studies 2017).

Opponents of FTTs argue that increased costs will hurt investors, including those who have their savings invested in financial markets, and could also change market behaviour negatively, for example by reducing market liquidity and making capital more expensive or causing trading activity to shift to markets without such taxes (Matheson 2011). Some of these issues have already been taken into account by the estimates above, in particular the possible impacts on the markets. While it is true that FTTs may increase costs, the argument that ordinary people will be badly hit is belied by the fact that financial assets are overwhelmingly owned by the richest in society (Persaud 2017, 20). Others argue that good design and responsible consumer protection regulations could help protect ordinary citizens from having the costs passed on to them (Institute for Policy Studies 2017).[28]

**Current extent / prospects**

Most G20 countries already have some form of FTT, which tend to be narrowly based and on average raise less than 0.5% of GDP (Matheson 2011, 4). The European Commission proposed an EU-wide FTT in 2011[29] with a potential revenue of €57 billion ($79 billion), though this was not taken forward, as tax matters require unanimity within the EU. However, several EU member states have been in negotiation about introducing a coordinated FTT since 2012 (Pekanov and Schratzenstaller 2019, 18--20). The most recent Franco-German version of this proposal covers only trading of shares, at not less than 0.2% (German Delegation to the EU Council 2019), though no final agreement has yet been made.

Given that FTTs are relatively widespread, and states such as Italy and France have even reintroduced them in the last decade (Pekanov and Schratzenstaller 2019, 20), their feasibility is not in doubt, and nor is their revenue raising potential. The main practical issue is the extent to which it will be possible to direct revenues towards SDG support in developing countries. France has allocated some FTT revenue towards development expenditure[30], but France is also yet to meet its 0.7% ODA commitment.

[27] Taken together the existing and proposed FTT would amount to around 0.4% of UK GDP of 2.4 trillion in 2017 (https://www.statista.com/statistics/281744/gdp-of-the-united-kingdom-uk-since-2000/ [accessed 25/03/2020 at 14:26]), so in line with other estimates.

[28] A more rebuttal of the critiques of FTT can be found in, Andersen (2017: 68-69) and Persaud (2017).

[29] 0.1% on stock and security transactions and 0.01% on transactions with stock and security derivatives, with exemptions to ensure targeting at professional market actors. (Pekanov and Schratzenstaller 2019, 19).

[30] https://www.euractiv.com/section/euro-finance/news/france-strengthens-financial-transaction-tax-to-fund-development/ [accessed 26/4/20 at 10:15]

### Airline ticket levy

The airline ticket levy is a small tax on air tickets with revenue earmarked, for example, for investment in adaptation to climate change[31] in developing countries (Chambwera, Njewa, and Loga 2012, 7). In practice, the tax is collected by the airline and is paid per passenger departing from airports in a given country. It can be a flat rate, vary by distance or class of travel, or be a percentage of the ticket price (Lockley and Chambwera 2011, 4).

### Potential scale

The International Air Passenger Adaption Levy (IAPAL), proposed by the Maldives on behalf of the Least Developed Countries (LDC) group at the COP conference in 2008, was estimated to generate $8-10 billion annually, based on a tax of $6 per passenger in economy class and $62 in business or first class (Chambwera, Njewa, and Loga 2012, 3). In the context of an effort to combat climate change and slow or reverse the growth of air passenger numbers, an argument could be made for a higher levy, increasing the potential revenue base.

### Assessment

The airline ticket levy is simple and cheap to administer, and provides a relatively predictable source of funding (Chambwera, Njewa, and Loga 2012). Depending on its size it will also reduce demand for air travel, having climate change and other environmental benefits. Conversely this reduced demand may also have an impact in reducing tourism for developing countries, and countries that implement it may suffer in comparison to other countries. However, the rates proposed above are very small compared to the cost of a ticket and existing analysis of impacts suggest these would be small, and outweighed by the benefits for developing countries (Lockley and Chambwera 2011).

### Current extent / prospects

A number of European and developing countries have already implemented an airline ticket tax and most have done so on both domestic and international flights (Chambwera et al. 2012: 10-11). (Lockley & Chambwera 2011: 4).

Most countries do not earmark revenues from their airline ticket levies, but France, along with several other countries[32] allocate the revenue to UNITAID[33], though from 2020, some will be diverted to national infrastructure in France.[34]

Another proposal was to allocate the money to the Green Climate Fund (Chambwera et al. 2012: 7; Lockley & Chambwera 2011: 2). Again, the extent to which such earmarking is possible for other countries will depend on political dynamics.

## Carbon taxes

A carbon tax is a tax on carbon content of fossil fuels which is the most comprehensive and simplest way to put a price on greenhouse gas emissions to discourage their use (Parry 2019, 16). Other carbon pricing instruments exist, principally emissions trading systems, but these are not considered here.

### Potential scale

Governments raised around $44 billion in revenue from carbon pricing in 2018, with more than half from carbon taxes (The World Bank 2019, 9). IMF staff estimate that a $35 per tonne tax would raise on average 1-2% of GDP (Parry 2019, 17), which, globally, would be equivalent to $905 – $1,810 billion.[35] A 2011 joint report by the IMF, World Bank and OECD estimated that a tax of $50 per tonne in developed countries alone could yield between $155 - $450 billion per year (World Bank Group 2011).

[31] On behalf of the Least Developed Countries (LDC) group, the Maldives proposed an International Air Passenger Adaption Levy (IAPAL) at the COP conference in 2008.

[32] It has not been possible to identify which countries still operate this tax, but Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger and the Republic of Korea did. Norway and the UK were also involved though did not earmark funding for UNITAID.

[33] https://unitaid.org/#en funding innovations to fight HIV/Aids, tuberculosis and malaria and other diseases.

[34] By 2020, the money generated by the French solidarity levy however will be allocated to both The French Fund for Development and the Financing Agency for the French Transport Infrastructure (Ministry of Ecological and Solidarity Transition 2020).

[35] IMF estimate of world GDP in 2019 was $90,520,000 billion ($90.5 trillion) https://www.imf.org/external/datamapper/profile/WEOWORLD [accessed 1/04/20 at 09:56]

### Assessment

Carbon taxes are an effective, efficient and relatively simple means of reducing greenhouse emissions, in addition to being a significant revenue source, and also having other benefits such as helping reduce air pollution. Potential regressive elements can be offset by, for example compensating the poorer quintiles of the population through transfer payments (Parry 2019). Implementation can sometimes be more difficult than anticipated as witnessed by the gilets jaunes movement for example, though these effects depend upon how the implementation is managed, with British Colombia in Canada, for example, managing to increase support for its carbon tax over time (The World Bank 2019, 49). Evidence suggests that phasing in carbon pricing progressively to allow businesses and households to adjust, and using the revenue transparently and equitably are helpful in this regard (Parry 2019).

### Current extent / prospects

An increasing number of countries have implemented or are planning to implement a carbon tax or an emission trading system. There were 57 initiatives in 2019, up from 51 in 2018 and this number should continue to grow to meet countries' climate pledges (The World Bank 2019, 3). While existing carbon taxes are at the domestic level, there have been proposals for an international carbon tax which would involve harmonising domestic carbon tax regimes and allocating a small percentage of these domestic taxes to a pooled fund for adaptation and mitigation in developing countries (Specht 2017, 32) Such internationally coordinated carbon taxes are not currently on the international agenda, so the main development revenue benefits from carbon taxing accrue either domestically or are dependent on developed countries willingness to earmark some of these taxes for development expenditure.

## Wealth taxes

The idea of a global wealth tax was revived by Thomas Piketty in his book Capital in the Twenty First Century. His proposal was a globally applied annual wealth tax covering all assets levied at 1% on holding wealth between €1-5 million and at 2% on wealth above €5 million with revenues transferred to the country where the taxpayer is resident for tax purposes, not where the wealth is held (Pikkety 2014). In addition to taxes on holding wealth,[36] which are currently quite rare, wealth taxes can also be imposed on wealth transfer, such as inheritance taxes,[37] or the appreciation of wealth,[38] such as capital gains taxes (ActionAid International 2018, 1) As we are not aware of proposals to extend wealth transfer or appreciation taxes to a global scale or to earmark them for the SDGs, we focus only on the proposal to tax the holding of wealth.

### Potential scale

Piketty estimates his proposed global wealth tax would generate around 2% of GDP as tax or €300 billion in the EU alone (Pikkety 2014, 528).[39] In 2016, ActionAid calculated that revenue from a 5% global tax on wealth over $1 million would be $5.8 trillion, and at 1% it would be $1.2 trillion (ActionAid International 2018, 2). Other more modest proposals include to levy at 1% on just dollar billionaires which could raise almost $100 billion annually,[40] or to levy at 0.01% which in 2015 would have raised $15.6 billion before costs of administration and not including efforts to avoid or evade the tax (Cobham and Klees J. 2016, 20). Obviously, over the longer term, as the tax would reduce wealth stocks, it would also reduce its revenue base. However at lower levels, it is safe to assume in general that overall wealth would grow faster than the taxation rate. During crisis periods this assumption might not hold.

[36] On a person's net worth - assets minus liabilities. Assets include cash, shares, bank deposits, property, pensions.

[37] Such as inheritance taxes, estate taxes, gift/ donations taxes.

[38] Normally Capital Gains Taxes.

[39] On a GDP of 15 trillion.

[40] https://movehumanity.org/article/wealth-tax-could-put-an-end-to-poverty/ [Accessed 27/03/20 at 09:52]

### Assessment

In addition to raising revenue, a global wealth tax would reduce inequality since wealth inequality is on average twice as large as income inequality. It could also have positive economic impacts if it spurred wealth holders to use their wealth more productively (ActionAid International 2018). Improvements in transparency and data collection that would be required could also help to tackle issues of tax avoidance and evasion (Cobham and Klees J. 2016). Designing a fair and efficient wealth tax would obviously be complicated (Pisani-Ferry 2019) and would require a global asset registry, which could be achieved in a number of ways, and has become easier with improvements in transparency and exchange of information in recent years (Cobham and Klees J. 2016). Many wealth holders can be expected to try and evade or avoid such a tax.

### Current extent / prospects

All taxes on wealth tend to form a small part of the total tax take, with taxes on holding and transferring wealth accounting for less than 1% of total tax revenue in the OECD, and capital gains taxes on wealth appreciation normally accounting for less than 2% of UK taxes for example (Centre on Household Assets and Saving Management 2013). The number of countries that have taxes on holding wealth has been in decline – from half of OECD countries in 1990 to only three countries by 2010, though there has been some revival since the global financial crisis, normally on a temporary basis (Centre on Household Assets and Saving Management 2013). There are no current political processes to discuss or develop a global approach to taxing the holding of wealth, though wealth taxes remain a live issue in individual countries, and the IMF has included increasing high end wealth and property taxes as one option for securing revenue in the face of the pandemic.[41]

As with all proposals in this section, a global wealth tax would obviously be a source of domestic revenue rather than an international revenue stream, unless taxes raised in developed countries could be earmarked for international development purposes.

## Reducing tax avoidance and evasion

Multinational corporations, rich individuals and criminals use offshore financial centres (or 'tax havens'), intra-company operations, and financial secrecy to aggressively avoid and evade[42] tax. This reduces the tax take overall, though the impact varies across countries. This is part of a broader agenda to combat illicit financial flows, which, in addition to being tax-related, could also be corruption or crime related. It is important to also remember that there are other significant impacts of this beyond the tax focus of this analysis. For example, it can significantly impact foreign direct investment statistics and practices, with one study estimating that $12 trillion in investment by multinational companies is 'phantom' as it goes through 'empty corporate shells'.[43]

Even narrowing down to our focus on tax, represents an extremely large and active area of research, practice and debate, and so we only summarise key points here.

As noted in the previous section, developing countries themselves lose significant revenues to illicit financial flows, and aggressive tax avoidance. While we focus on potential revenue gains for developed countries here which could then offer potential for additional international SDG resources, it must be remembered that changes in tax rules and behaviours can have significant 'spillover' effects. In other words, if tax collection potential improves in developed countries, this does not necessarily mean improved potential in developing countries, and in fact could even damage their tax potential, depending on the rules that are implemented. This is why the agenda of

[41] https://www.businessinsider.com/governments-wealth-taxes-imf-new-source-revenue-coronavirus-economy-consider-2020-4?r=US&IR=T [accessed 16/6/20 at 9:46]

[42] There is considerable debate over the distinction between these two terms. Tax evasion is illegal. Tax avoidance can span a spectrum between (1) legal and intended (tax authorities create tax concessions that are intended to be used) to (2) possibly legal but unintended (loopholes exist which are exploited, undermining the spirit of the law) to (3) illegal but undetected (when tax authorities examine the scheme used, they find it to be illegal.) The complex nature of this blurred line is shown by the fact that 70% of corporate tax returns examined by US authorities result in additional tax payments (Inter-agency Task Force on Financing for Development 2020, 43). Even though the companies are not prosecuted for tax evasion, they are clearly regularly crossing over this blurred line. We focus on tax evasion and 'aggressive tax avoidance,' where the intent and spirit of the law is not being followed - cases (1) and (2) above.

[43] https://www.imf.org/external/pubs/ft/fandd/2018/06/inside-the-world-of-global-tax-havens-and-offshore-banking/damgaard.pdf [accessed 16/6/20]

ensuring that developing countries have voice and voting power in international tax discussions remains centrally important (but outside the scope of this report).

### Potential scale

It is obviously extremely difficult to estimate revenue losses due to tax avoidance and tax evasion, and all numbers should be treated as indicative of scale rather than precise estimates. We are not aware of a comprehensive estimate of tax lost from all forms of tax evasion and aggressive tax avoidance. Most research currently focusses on losses due to multinational activities. We highlight some findings of recent research in order to give an outline of the scale of magnitude of the potential revenue lost.

- One study estimated that aggressive tax avoidance by US multinational corporations shifted $660 billion (or 27%) of their profits to near-zero tax jurisdictions[44] through base erosion and profit shifting (shifting profits from higher tax to lower tax jurisdictions through internal accounting methods and intra-company operations). If similar results were imputed worldwide, the authors estimate that this could be worth as much as 5% of global GDP (Cobham and Janskỳ 2017). The authors do not make an estimate for the actual tax lost due to this profit shifting, but it would be substantial given that the effective US corporate tax rate in 2012, the relevant data year, was 28%.[45]
- At the lower end of the scale, IMF researchers estimate that multinational tax avoidance costs the US about 0.4% of its GDP in lost corporate taxes, and 0.17% of global GDP overall (Beer, de Mooij, and Liu 2018). They do not give a dollar figure for this amount, but based on their estimates of overall corporate tax bases, this would be around $160 billion.
- A study by the European Commission, focused on tax evasion by wealthy individuals estimated that offshore financial centres held $7.8 trillion of wealth in 2016, resulting in a tax loss of $46 billion or 0.32% of GDP for the EU alone (European Commission 2019).
- In the UK, the government estimated the 'tax gap' – the gap between the tax paid and what should theoretically be paid - to be £35 billion in 2017-18(HM Revenue and Customs 2019). This estimate has been critiqued, with Professor Richard Murphy arguing that the real figure should be £89 billion.[46]

### Assessment

In addition to raising revenue, reducing tax avoidance and evasion would reduce inequality by transferring wealth from private wealth holders to increase public revenues.[47] There could also be wider economic benefits through the shifting of incentives for multinational firms away from structuring their operations to reduce their tax bills towards their real business needs. Greater compliance with tax laws and regulations would help to cement the 'social contract' between citizens and states. However, as noted above, the crucial issue will be the extent to which measures to reduce tax evasion and avoidance result in benefits for developing countries, or whether they are primarily aimed at improving outcomes for more powerful countries.


**▲ 60 PV solar panels are installed to power water borehole pumps. Nzangwa, Mugina, Rweru, Bugesera, Rwanda. May 2017**

[44] Almost all went through five jurisdictions : Netherlands, Ireland, Bermuda, and Luxembourg (the top four) and Singapore and Switzerland.

[45] https://www.epi.org/publication/ib364-corporate-tax-rates-and-economic-growth/ [accessed 29/04/20 at 10:49]

[46] https://www.taxresearch.org.uk/Blog/2019/06/19/the-uk-tax-gap-is-90-billion-a-year/ [accessed 29/04/2020]

[47] The inequality effect of higher taxes on multinationals would be harder to estimate.

**Current extent / prospects**

This agenda was picked up by the G20 in 2008 and there have been a number of national and international initiatives to combat tax avoidance and evasion since then. A number of approaches have been proposed to tackle this of which the main are:

- Improving tax revenue collection abilities, including through automatic exchange of information between tax authorities, and anti-money laundering rules;
- Promoting transparency and eliminating harmful financial secrecy, including through public country-by-country reporting and beneficial ownership registers. This is aimed at eliminating tax havens.[48]
- Redesigning the tax system, including through introducing unitary taxation for multinationals.

Significant policy changes have taken place and proposals developed globally and at regional and national level over the past decade. These have been centred on the OECD, and include the Base Erosion and Profit Shifting (BEPS) initiative, and a global standard on automatic exchange of information between tax authorities.[49] The G20 has actively promoted this agenda, and the EU, US and other jurisdictions have implemented their own policy changes, such as the EU requirement for member states to have publicly accessible registers of beneficial owners. We do not have space to consider them all, but in general, two points are worth highlighting. Firstly, the evidence on the impact on tax revenues of measures taken so far is relatively scarce. One recent study found that banks in international financial centres received 22% fewer deposits in 2019 compared with 2008, correlated with the introduction of automatic exchange of information agreements (O'Reilly, Parra Ramirez, and Stemmer 2019). Secondly, campaigners have criticized the policy reforms that have been made for lacking transparency, not encompassing the full scale of the problem, and excluding developing countries from key decision-making moments.[50]

However, recent efforts by the EU and others to propose new taxes on US-based technology multinationals, and a change of approach by the OECD have revived the long-term aspiration of tax justice campaigners for a unitary tax on multinationals. For example, a report by the Fair Tax Mark found that Facebook, Apple, Amazon, Netflix, Google and Microsoft had a gap of $155 billion between the expected headline rates of tax and the cash taxes actually paid.[51] Unitary taxation treats a multinational group as a single taxable unit, rather than a group of individual subsidiaries in different countries and means that the tax levied on the single unit should be apportioned according to where economic activity takes place, not where it is legally registered, which could help stop corporate tax avoidance and evasion, campaigners argue.[52] Current OECD proposals, which have been under discussion since January 2019, to move towards this system have significant issues for developing countries, including questions of scope which could exclude key sectors such as extractives, issues of allocation, where, for example, basing this purely on sales may not benefit poorer economies. The process remains politically difficult in terms of keeping on board all powerful countries, and input by developing countries is extremely challenging given the pace of discussion, and according to one analysis it is not clear that the proposals would result in any redistribution of taxing rights to developing countries (Hearson 2020).

## Other taxes

It is of course possible to imagine other taxes that could be used to raise funds for SDG-spending in developed countries, such as tobacco taxes. However, these are not considered here, where the focus has been on taxes that are not already in widespread existence, and hence it is easier to envisage that a portion of these new revenues could be earmarked for development spending.

[48] There are different ways of assessing what a tax haven is, but a focus on them providing secrecy as well as lower tax rates is useful. The Tax Justice Network's Financial Secrecy Index lists the top 20 worst jurisdictions as 1. Cayman Islands 2. USA 3. Switzerland 4. Hong Kong 5. Singapore 6. Luxembourg 7. Japan 8. Netherlands 9. British Virgin Islands 10. UAE 11. Guernsey 12. UK 13. Taiwan 14. Germany 15. Panama 16. Jersey 17. Thailand 18. Malta 19. Canada 20. Qatar https://fsi.taxjustice.net/en/introduction/fsi-results [accessed 16/6/20 at 1004]

[49] http://www.oecd.org/tax/transparency/automaticexchangeofinformation.htm [accessed 29/4/20]

[50] See for example: https://www.globaltaxjustice.org/en/resources and https://www.taxjustice.net/ [accessed 29/04/20]

[51] https://fairtaxmark.net/wp-content/uploads/2019/12/Silicon-Six-Report-5-12-19.pdf [accessed 16/6/20 at 1008]

[52] https://www.taxjustice.net/2019/11/21/a-historic-day-for-unitary-taxation/ [accessed 27/03/20 at 10:44]

## 3.2 Expenditure reallocation - removing fossil fuel subsidies

Alternatively, additional resources could be made available through the elimination of fossil fuel subsidies. Subsidies are defined by the World Trade Organisation (WTO) as "a financial contribution by a government or any public body" or "any form of income or price support" that confers a benefit (WTO 1994), in this case to the production or consumption of fossil fuels. This is a relatively broad definition, which covers not just direct transfer of funds, but also forgone revenue (tax breaks), loan guarantees, goods or services supplied by government including infrastructure, buying equity stakes in companies and indirect payments through other public or private bodies.

### Potential scale

There are wide variations in estimates of fossil fuel subsidies depending on the countries covered, and the methodology used. By one measure, fossil fuel subsidies (through direct transfer of funds and tax breaks alone – so excluding other forms of public financing) amounted to $127 billion in 2017 for G20 countries excluding Saudi Arabia (Donat, Schindler, and Burck 2019). However, ODI research has also found that once public finance and support from state-owned enterprises are also taken into account, G20 subsidies to coal and coal-fired electricity production alone were $64 billion per year between 2016-17 (Gençsü et al. 2019). Using a similar (wider) scope for oil and gas subsidies would therefore result in much higher overall numbers.

A different methodology by the IEA, which compares domestic energy prices to the international market price (and therefore largely incorporates only consumer subsidies) estimated the value of global fossil fuel subsidies at more than $400 billion in 2018.[53] A third methodology from the, IMF, which takes a much broader view of the 'wider costs' of fossil fuels and incorporates the cost of externalities (such as air pollution, congestion and climate change), produces far larger estimates of global subsidies of $4.7 trillion or 6.3% of global GDP.

A large proportion of these subsidies are in developing countries, with China by far the largest subsidizer, but fossil fuel subsidies in the US and EU alone are worth $938 billion.

### Assessment

In addition to providing finance, eliminating fossil fuels would also make an important contribution to reaching climate goals. There would also be beneficial impacts on health and the environment through a reduction in pollution. A reduction in dependence on oil and gas imports would also have major geo-political implications, though there would also be a corollary rise in dependence on the materials required to power clean energy production. Inevitably, some workers, communities and firms would suffer, and any increase in fuel costs would impact various sections of society differently. However, successful reform examples show how the gains from reform could be successfully targeted to support those who are impacted (Gerasimchuk et al. 2018).

### Current extent / prospects

In 2009, the G20 agreed to "Rationalize and phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption" (G20 2009) but has not gone beyond this limited commitment since then. The EU has a far stronger commitment to phase out all environmentally harmful subsidies, including those to fossil fuels, completely by 2020, and the G7 has a 2025 phase-out deadline for fossil fuel subsidies.[1] The question for this paper, however is to what extent we can see evidence that countries have or are proposing to redirect some of the money saved by reducing fossil fuel subsidies on SDG expenditure in developing countries. We have not been able to find specific instances where this has been the case.

[53] https://www.iea.org/topics/energy-subsidies [accessed 21/5/20 at 11:21]

It is difficult to know for certain what the impact of the current economic crisis and the dramatic fall in oil prices will mean for opportunities to phase out fossil fuel subsidies. Some governments such as the USA have reacted by increasing subsidies to fossil fuel companies,[2] though as most governments are bailing out companies across the whole economy it is hard to disentangle the specific support for fossil fuels from this wider support for firms as a whole. In terms of consumption subsidies, which are often poorly-targeted and benefit those who have higher levels of consumption, low oil prices present an excellent opportunity for reform.

As with other sources in this section, the likelihood of ring-fencing any of the savings from reducing fossil fuel subsidies towards SDG financing is a political choice. As the removal of subsidies could threaten the viability of companies and potentially whole sectors, demands to support workforces and firms to transition to alternative occupations would presumably have a strong initial call on these savings, as might social protection measures to protect the poorest from increased fuel costs, as well as climate mitigation measures.

## 3.3 Financial 'innovation' options

The proposals in this area fall into two categories.

### SDR issuance

Special drawing rights (SDRs), created in 1969, are an interest-bearing international reserve asset held at the IMF, intended to supplement the reserves of member countries, which can therefore allow them to for example, reduce reliance on borrowing to build reserves.[54] In relation to the SDGs and the climate crisis, the idea would thus be that new SDR allocation would create new reserve assets for developing countries and thereby free up their existing resources for development purposes.

SDRs are created through agreement at the IMF, and the last allocation was in 2009. SDRs are distributed according to IMF quota shares, meaning the US has enough voting shares to block new issuances, as it is currently, but proposals have been made to change this. For example, Alessandrini & Presbitero (2012) proposed reform would allow the IMF to allocate a higher share of SDRs to poorer countries than the quota system would allow. Alternatively, as SDRs can be exchanged for hard currencies, it would also be possible for developed countries to simply transfer them to developing countries, though this would of course imply a loss of resources for developed countries. This would therefore be most feasible when new SDRs are allocated, when developed countries could agree to immediately transfer their new SDRs to developing countries.

#### Potential scale

UNDESA's proposal was for the annual creation of 150-250 billion SDRs, with two thirds allocated to development countries, meaning they would receive $160-270 billion every year (UNDESA 2012, x–xi). However, in the wake of the current Covid 19-sparked economic crisis, far more ambitious proposals have been formulated. UNCTAD have proposed the creation of enough SDRs to provide 730 billion ($ 1 trillion) for developing countries (UNCTAD 2020, 10) which would require the reallocation of those created from developed to developing countries.

#### Assessment

Regular allocation of SDRs could provide a predictable, simple method of boosting the financial position of developing country governments, and so benefit from the advantages and disadvantages of budget-support type instruments (Alessandrini and Presbitero 2012) but with less volatility and conditionality. Of course, its value would depend on how it was used by individual countries, and the extent to which moral hazard consequences arose. Indirect benefits could also be expected such as a reduction in the role of the dollar as the global reserve currency. The main economic concern about creating new assets annually would be the impact on inflation. However, Richard Cooper of Harvard University studied this issue for the IMF, and concluded that these concerns could be dealt with in the most likely scenarios, showing that this economic objection can be overcome by careful design (Cooper 2011). In the current situation, this concern is also likely to be less policy relevant given the collapse in demand caused by the crisis.

[54] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR [Accessed 1/4/20 at 11:07]

**Current extent / prospects**

In 2009, the G20 agreed to issue $250 billion in extra SDRs, providing a precedent for large allocations during times of crisis.(G20 2009) This was only the third allocation in history, following smaller allocations in 1972 and 1981.[55] However, most of these resources went to developed countries because the allocation is tied to IMF quotas. Changing the SDR allocation formula would be difficult as it would require an 85% majority of voting shares at the IMF, giving the US an effective veto, as it controls more than 15% of shares.[56] Persuading developed countries to agree to voluntary transfer of SDRs would be a less difficult task, and the current situation increases the likelihood of such agreements being reached. However, given that developed countries will also be looking for tax-free and debt-free ways of boosting their financial position, an alternative would be to agree a very large expansion of SDRs overall, to ensure that developing countries gained enough. One proposal is for a $3 trillion allocation, which would ensure $230 billion for Africa, for example. [57]

### Public facilities to leverage resources for specific issues

There have been a number of international initiatives that attempt to increase funding available for specific issues or sectors. We do not cover these in detail in this section as the sources of the additional financing is either pre-existing, whether ODA or domestic tax revenues, or is a debt-creating transfer. For example, the Global Financing Facility[58] is a mechanism, launched in 2015, that has pooled international public and philanthropic resources with World Bank loans - aiming to focus on results for health and nutrition. The GFF gives country governments an incentive to borrow money from the World Bank for health-related expenditures, and for donors to direct ODA or philanthropic donations towards health and so therefore does not represent new non-debt creating resources. The International Finance for Education Facility (IFFed) on the other hand is a proposal for additional concessional loans for education (The Education Commission 2018), so again does not create new non-debt creating resources.

## 3.4 Debt-related options

There are a number of options for reducing debt levels – and hence freeing up additional domestic resources for development – that could be considered.

### Debt cancellation and standstills

Rising levels of public debt, particularly in lower income developing countries had caused international institutions, including the IMF to raise concerns about a potential widespread debt crisis even before the COVID 19 pandemic. As a percentage of GDP, the median public debt of low-income economies rose to 49% in 2019, up from 33% in 2013 (IMF 2020). The changing nature of public debt with a rise in borrowing from private sources has meant that it has become more expensive and as a result, debt service is absorbing a growing share of public expenditure (IMF 2018, 50).[59] The number of low-income countries facing serious debt problems is rising rapidly. 44% were classified by the IMF as being at high risk of or already in debt distress in 2019 – a number that has more than doubled since 2013 (IMF 2020, 14).[60]

Debt restructuring offers an opportunity to both reduce significantly the total stock of debt of a country and also the amount it has to repay annually in servicing costs. Cancellation involves writing off the debt, while other forms of restructuring which alter maturity structures or interest payments may not change the total amount of debt but can reduce servicing costs.

[55] https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/14/51/Special-Drawing-Right-SDR [Accessed 1/4/20 at 11:07]

[56] https://www.imf.org/external/np/sec/memdir/members.aspx [1/4/20]

[57] https://ftalphaville.ft.com/2020/03/13/1584100656000/Time-for-an-SDR-injection-/ [accessed 1/4/20 at 11:53]

[58] https://www.globalfinancingfacility.org/ [accessed 1/4/20 at 16:47]

[59] One analysis using IMF and World Bank data suggests that the 124 developing countries for which data is available spent a mean average 12.2% of government revenue on debt service in 2018, up from 6.6% in 2010. 29 developing countries devoted over 15% of government revenues to debt service in 2017, up from 21 in 2014 (UNCTAD 2018, 7).

[60] UNCTAD's Trade and Development Report 2019 spells out what this means for the SDGs. It estimates that, for a sample of 30 developing countries across all income categories, debt-to-GDP ratios will to an average number of 185% by 2030 – if this is not to happen, it will require average annual GDP growth rates of approximately 12% (UNCTAD 2019).

Debt standstills offer temporary 'holidays' from repayments during a crisis to allow more fiscal space to be opened up for governments during that period. They do not necessarily have to be combined with restructuring.

### Potential scale

The Heavily Indebted Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI), were a response to the last debt crisis. Together with related debt relief from Paris Club creditors these initiatives relieved the 36 participating countries of $120 billion in debt[61] (IMF 2017), reducing the debt of participating countries by 90% (Staffs of IDA & IMF 2011, 10).

To deal with the current COVID 19 crisis, debt standstills have been called for by African Finance Ministers[62] and the World Bank and IMF.[63] The Jubilee Debt Campaign has called for a more widespread standstill, noting that in 2020 the 76 lower-income developing countries that can borrow from the World Bank's concessional window are due to spend almost $41 billion on debt payments.[64] UNCTAD has proposed a temporary standstill which could be declared by the borrowing country itself and sanctioned by independent experts, combined with a programme of debt reduction. They note that during the three year period 2022-24, $4.482 trillion in debt repayments are scheduled by developing countries (or a little under $1.5 trillion per year), giving an indication of the resources that could be freed up if debt cancellation were widespread (UNCTAD 2020).

### Assessment

Debt cancellation and standstills have a direct impact on government budgets similar to direct budget support, but with potentially greater predictability. They also, over the medium term, improve governments' credit ratings and so open up space for new borrowing, which can provide additional resources, but can also raise future problems of sustainability. They also impose costs on creditors in the short-term, though may also provide benefits as well if rapid and fair restructurings lead to economic improvements in the borrowing country that help to service remaining debt.

### Current extent / prospects

Despite the fact that since the 1950s, there have been more than 600 cases where unsustainable sovereign debt has had to be restructured (Das, Papaioannou, and Trebesch 2012, 30–36), there is still no bankruptcy regime or 'debt workout mechanism' for governments that face unsustainable debt levels. The Heavily Indebted Poor Countries initiative (HIPC) provided a limited, ad hoc process to deal with the debts of some developing countries, but this process is no longer available for future cases.

The COVID 19 crisis has resulted in restarting of debt relief initiatives, albeit at a lower scale than what is required. The IMF has agreed to cancel debt repayments for a limited time period for 25 of the poorest countries. The G20, however has only agreed to suspend debt service repayments, meaning they will still have to be paid, though at a later date.

Far more ambitious mechanisms have been on the official international agenda, however. In 2015 the UN General Assembly passed a resolution setting out internationally agreed principles for sovereign debt restructuring (UNGA 2015), which, though very high level, set out important principles including the need for transparency, a sustainable end point including the consideration of human rights and social and environmental impacts; and the stipulation that a minority of creditors should not be allowed to hold up restructuring.

[61] In 2015 present value terms.

[62] https://www.theguardian.com/global-development/2020/mar/25/africa-leads-calls-for-debt-relief-in-face-of-coronavirus-crisis [Accessed 1/4/20 at 13:54]

[63] For IDA countries: https://www.imf.org/en/News/Articles/2020/03/25/pr20103-joint-statement-world-bank-group-and-imf-call-to-action-on-debt-of-ida-countries [Accessed 1/4/20 at 13:56]

[64] https://jubileedebt.org.uk/press-release/reaction-to-imf-and-world-bank-call-for-a-debt-moratorium [accessed 1/4/20 at 14:07]

A more detailed set of proposals on how to improve restructuring were set out in UNCTAD's Roadmap and Guide on Sovereign Debt Workouts. The starting point for the proposed process is that the debtor state should take the lead in the process. In practice, this has proved difficult, in part because of political economy problems in indebted countries (Trebesch 2019) and because debtors are aware of the ramifications of signaling that they are having problems. However examples do exist, particularly the case of Indonesia which, in 1969, called in an independent mediator to negotiate a restructuring with all creditors, which was accepted by all parties (Kaiser and Wittmann 2018).

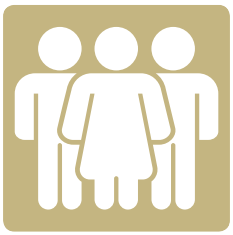
Recognising this problem, the Roadmap proposes the formation of a Debt Workout Institution. The development of a permanent mechanism for resolving sovereign debt problems – also known as a Sovereign Debt Restructuring Mechanism (SDRM), a Sovereign Debt Workout Mechanism - has long been on the international agenda. There are various ideas about how this could work (Das, Papaioannou, and Trebesch 2012) but the Roadmap is the most recent major attempt by an international institution to set out practical steps. The key feature of such an institution is that it would be impartial, drawing upon expertise, with a legal basis that would make its decisions binding. The objective of such an institution would be to ensure that debt crises were resolved rapidly and fairly, but it should also help to reduce the number of such crises, as both creditors in particular would moderate their behaviour knowing that any future crisis a binding mechanism existed. Such a mechanism would require political support from UN member states, and a revival of previous attempts to get international agreement on this.

## Debt swaps

A debt swap involves a creditor canceling the debt of a developing country, and in return the debtor making a commitment to, for example, reinvest the savings in development projects, or conserve a natural resource. Alternatively, an official donor can buy a debt owed to a commercial creditor in order to conduct a swap, or a creditor to sell the debt to a third party which is committed to investing proceeds in SDG-related activities at a price lower than the face value.[65] For example, the Economic Commission for Latin America and the Caribbean (ECLAC) has proposed writing down Caribbean Small Island Developing State (SIDS) debt in return for payments by debtors into a Caribbean Resilience Fund (ECLAC 2016).

### Potential scale

Debt for nature swaps have occurred in the past, mostly in the 1990s, such as the US's Enterprise for the Americas Initiative which resulted in around $200 million of direct transfers for conservation projects in Latin America.[66] One proposal for debt for climate swaps estimates that nine countries with a total debt stock of $22.3 billion would be priority candidates[67] and this could increase to 19 countries and a stock of $97.3 billion if the criteria for selection were relaxed (Warland and Michaelowa 2015). Existing debt for climate swaps have been on a much smaller scale, however, such as a $30 million for the Seychelles in 2015, $32 million for Indonesia, and €7.7 million for Ecuador (Warland and Michaelowa 2015).



[65] http://www.undp.org/content/dam/sdfinance/doc/Debt%20for%20Nature%20Swaps%20_%20UNDP.pdf [accessed 1/4/20 at 14:55]

[66] http://www.undp.org/content/dam/sdfinance/doc/Debt%20for%20Nature%20Swaps%20_%20UNDP.pdf [accessed 1/4/20 at 14:55]

[67] Can add more detail here

### Assessment

The main advantage of a debt swap is that it ties debt relief to additional spending in SDG or climate related areas. This may also have the impact of increasing the donor or creditors willingness to countenance debt write-downs, though the small scale of existing examples compared with the largescale debt relief of HIPC and MDRI suggest that there are other ways of achieving this compliance. Compared to other alternatives, transaction costs may be high, with time-consuming negotiations and a high level of donor direction of where money is spent, reducing country ownership, and which countries can receive these instruments. (Warland and Michaelowa 2015, 2)

### Current extent / prospects

As noted, debt for nature swaps have been conducted since the late 1980s and mostly occurred during the 1990s and debt for climate swaps are also currently taking place though on a small scale. While debt for education swaps were discussed in the 1980s and 1990s, there has been little activity since then (Ito, Sekiguchi, and Yamawake 2018). It is important to remember that such swaps are likely to be funded using ODA and as such would not represent additional resources.

## Reduced borrowing and servicing costs

Finally, it is important to note that one way of freeing up current domestic resources would be to reduce the cost of existing borrowing. The rise in particular of borrowing from private creditors has driven the recent rise in debt service costs. The provision of better concessional borrowing in its place could help reduce these costs and free up domestic resources for SDG expenditure. There are also a number of proposals for reducing the debt service costs and risks of existing debt such as by offering more local-currency debt backed by IFIs or increasing the scale of MDB lending to reduce reliance on the private sector. These proposals are not considered here as we are focusing on non-debt creating options.

# 3.5 Private sector options

## Charitable / philanthropic resources

The growth of wealth across the world has helped expand levels and types of philanthropy including through foundations, corporations, and high net worth individuals (Callias, Gradyb, and Grosheva 2017, 4).[68] At the same time, non-governmental organisations have also raised substantial funds for development from a variety of sources, including individuals, governments, corporates and philanthropic foundations.

### Potential scale

The OECD's measure of grants by private agencies and NGOs for development purposes reached $41 billion in 2018 up from $10 billion in 2000 (in constant 2014 prices).[69] There will be double counting with ODA in this figure, as many NGOs receive funding from governments from ODA budgets. On a narrower measure, an OECD survey found that private philanthropic foundations provided $8 billion per year for development on average between 2013-15, with the Bill and Melinda Gates Foundation providing nearly half of the total (Benn, Sangaré, and Hos 2018, 19–22).

It is important to note that giving for international development purposes represents a small portion of total charitable giving by individuals and foundations. A UK survey of individual giving found that overseas aid and disaster relief accounted for 11% of total giving for example (Charities Aid Foundation 2019, 14).

[68] An OECD survey of private philanthropic foundations funding development between 2013-2015 found that over 99% was provided in grant form. Health-related spending was 53% of the total and the main beneficiary region was Africa which received 28% of the total (Benn, Sangaré, and Hos 2018).

[69] https://data.oecd.org/drf/grants-by-private-agencies-and-ngos.htm [accessed 31/03/2020 at 10:47]

### Assessment

The large number of organisations involved in charitable and philanthropic giving make it hard to generalise. However, some argue that, in addition to potential scale of the resource, such giving can reach areas or issues that other flows may not target, such as focussing on marginalised populations or on empowering citizens.[70] Of course, such resources may also be targeted poorly towards popular causes or the preferences of wealthy individuals. Others argue that though awareness of development frameworks has been growing, many problems remain, including siloed approaches, lack of understanding of in-country issues and ecosystems, and poor collaboration (Callias, Gradyb, and Grosheva 2017, 1).

### Current extent / prospects

The scope for growth in this resource is largely dependent upon exogenous factors such as the growth in incomes and wealth, but can of course be encouraged by both regulatory and tax incentives (which imply a potential loss of tax revenue) and by for example, attempting to inculcate a culture of giving across society.

## Crowdfunding instruments

The idea behind crowdfunding is that a group of individuals collectively pool their resources in order to support a given initiative promoted by other people or organizations (UNDP 2020a; InfoDev 2013: 8). In three of the four types of crowdfunding – reward-based, lending, and equity - this is akin to a private, albeit potentially socially responsible investment, so not directly relevant to this section. Only in the case where the crowdfunding is given as a donation is this relevant here. In this case, crowdfunding is in reality a special and currently relatively small form of charitable or philanthropic giving (see section 3.4) so we do not consider it separately in detail here. Donation-based crowdfunding had an estimated value of $0.56 billion globally in 2016, though only a very small portion of this would be for SDG-related funding in developing countries and there is currently no platform for such crowdfunding donations (Scataglini and Ventresca 2019).

## Lotteries

Lotteries can be used to raise funds for charitable purposes[71] and while proceeds are normally used domestically, there are cases where the funds have been allocated to international development, such as in Belgium, where the Belgian lottery is dedicated to raising funds for the Belgian Fund for Food Security, [72]or where international causes may receive funding from competitive processes, such as in the Netherlands or the UK.[73] There have been proposals for a world lottery to fund development, but only national lotteries exist currently.[74]

### Potential scale

The World Lottery Association estimates that its members had revenues of $307 billion in 2018, of which $87 billion (28%) was given to good causes (WLA 2019, 4). This is only a portion of the overall gambling market with sports betting alone worth more than $1.3 trillion.[75] The fraction of this going to development is likely to be very small. Many countries do not yet have a lottery, and UNDP estimate, that over €12 billion could be raised additionally annually, if charity lotteries were allowed in all European countries.[76]

[70] Cee for example: https://oecd-development-matters.org/2019/02/05/the-role-of-philanthropy-for-the-sdgs-is-not-what-you-expect/ [accessed 31/03/2020 at 11:26]

[71] Lotteries are either administered by public authorities or licensed to private operators, and tend to follow the same formula: 70% for prizes, 3-7% for operating costs with around 25% for desired social purposes.

[72] https://diplomatie.belgium.be/en/policy/development_cooperation/what_we_do/themes/inclusive_growth/agriculture_and_food_security/belgian_fund_for_food_security [accessed 31/03/2020 at 12:04]

[73] https://www.sdfinance.undp.org/content/sdfinance/en/home/solutions/lotteries.html#mst-1 [accessed 31/03/20 at 11:46]

[74] http://www.leadinggroup.org/article200.html [accessed 31/03/2020 at 11:51]

[75] https://www.sdfinance.undp.org/content/sdfinance/en/home/solutions/lotteries.html#mst-1 [accessed 31/03/20 at 11:46]

[76] https://www.sdfinance.undp.org/content/sdfinance/en/home/solutions/lotteries.html#mst-1 [accessed 31/03/20 at 11:46]

### Assessment

In addition to the scale of resources that might potentially be available, lotteries also normally allow for easier earmarking of funds for specific purposes as they are normally separated from a country's national budget. Similarly, they may be regarded as easier to introduce than raising taxes or diverting revenue and have relatively low operational and running costs. Gambling causes societal problems and depending on who plays the lottery may be a more regressive way of raising revenues than taxes. The World Food Programme has proposed a humanitarian lottery, run globally, to raise €400 million annually.[77]

### Current extent / prospects

It is hard to imagine that existing lotteries could be redirected towards financing SDG-related expenditure in developing countries, except in an incremental way. The main potential would therefore seem to lie when new lotteries are introduced, though there will always be competing good causes to which the financing could be directed. Proposals have been made for a global lottery at UN forums since 1972[78] though none are currently being seriously discussed in any international processes to the best of our knowledge.

## Social impact investments

Social impact investments are financing for organisations that address social needs with the explicit expectation of a measurable social, as well as a financial return.[79] As there is a financial return, this can be regarded as a form of commercial finance rather than public finance and hence is not covered in this report. Those which are often considered as a form of public-private financing, such as social impact bonds are better thought of as a form of delivery mechanism for public financing when the financing costs of the bond are wholly covered by the public entity.

## Remittances

Remittances are private transfers from abroad to recipients in the sender's country of origin and were worth over $550 billion in 2019.[80] As such they are a form of private income, and only fit in this section in so far as they may help increase public revenues for funding SDG-related activities. They can do this in two ways. First, there are vehicles such as diaspora bonds that have been designed to encourage lending to governments, and hence should be seen as one source of debt-creating finance, and hence not covered here. Second, remittances may create taxable income and hence tax revenues, a form of domestic resource and hence not covered in this section.

The main international resource transfer issue regarding remittances has been the cost of sending them. After the G20's commitment to reduce the cost of sending remittances to 5% from 10% and subsequently the SDGs reduced this to 3%[81]. By the fourth quarter of 2019, the average prices had fallen to 6.82% showing that although there has been progress there is still a way to go.

[77] https://www.sdfinance.undp.org/content/sdfinance/en/home/solutions/lotteries.html#mst-1 [accessed 31/03/20 at 11:46]

[78] https://www.sdfinance.undp.org/content/sdfinance/en/home/solutions/lotteries.html#mst-1 [accessed 31/03/20 at 11:46]

[79] https://www.oecd.org/social/social-impact-investment.htm [accessed 1/4/20 at 16:22]

[80] https://blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019 [accessed 1/4/20 at 16:31]

[81] https://indicators.report/targets/10-c/ [accessed 1/4/20 at 16:38]

## 3.6 Increases in ODA

Another option for increasing international public resources for developing countries would be to increase ODA. The table below shows the additional resources that could be generated if DAC donors met their existing commitment to give 0.7% of GNI as ODA, and what would happen if they were to commit to and give higher levels: of 1.0%, 2.5%, and 5.0%.

**Table 3.1** Additional ODA generated by meeting commitments by DAC donors (USD billions)

| Commitment | 2018 amount | 0.7% GNI | 1% GNI | 2.5% GNI | 5% GNI |
|---|---|---|---|---|---|
| Additional amount generated | 153 | 199 | 350 | 1,104 | 2,362 |

Source: OECD [82]

Given the size of developed countries GDP, it is obviously possible to mobilise large resources for the SDGs if they can be persuaded to devote a larger share of their GNI to the purpose. Even meeting the existing commitment of 0.7% would make a significant difference, particularly in LICs where ODA and domestic resources are both important sources for public expenditure, as we have seen. As noted above, several countries have already met the 0.7% targets, including one G7 nation (the UK) and several Scandinavian countries that have met and exceeded the target for many years.

UNCTAD has called for a $500 billion 'Marshall Plan for health recovery' for developing countries to be paid for by developed countries. This is calculated as a quarter the last decades 'missing ODA' – that which would have been paid if all countries had met the 0.7% targets.[83]

Higher targets, such as 1% 2.5% or 5% could be directed at meeting both development and climate goals. This would overcome the existing problem of double promising, where climate finance commitments are largely met using ODA. It is worth remembering that the Marshall Plan was a transfer equivalent to 2% of US GDP at the time (Eichengreen 2010), so this kind of commitment is not unprecedented.

Meeting the targets, and exceeding them would require the mobilization of significant public pressure on governments and political will on the part of leaders. It is beyond the scope of this paper to assess the extent to which this would be possible, but the fact that the pandemic has affected all nations and reinforced the extent to which we are all inter-dependent may provide a useful tailwind for such efforts.

[82] http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2018-complete-data-tables.pdf [accessed 21/5/20]

[83] https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2315


▲ **Agricultural greenery in the Kathamari area. Despite the salinity of water, cultivation of crops is possible because of the saline water resistant crops. Kathamari, Shyamnagar, Satkhira, Bangladesh. September 2018.**

## 3.7 Obligatory transfers

One weakness of many of the above options and the possible increase in ODA targets discussed in Section 2 is the voluntary nature of the transfers. Not only does this tend to mean that far less is typically delivered than is promised, but also that donor preferences rather than recipient need, heavily influence how, where and on what the finances are used.

Proposals have been made for international transfers to move 'from voluntary to contributory' with all countries of the world contributing to global funds through an agreed formula (Glennie 2019). Some examples within the international system already exist, including UN membership contributions which are agreed by the UN General Assembly for all member states and pay for the UN's regular budget, international tribunals, and peacekeeping operations.[84] In many ways, shifting a far larger part of the international system to such mandatory transfers would not be new, but a return to previous modalities. In the postwar period, many intergovernmental organisations relied on mandatory contributions and when the possibility of additional voluntary contributions were introduced, this came with a prohibition on earmarking, but this was gradually lifted (Graham 2017, 17).

[84] http://ask.un.org/faq/189356 [accessed 1/4/20 at 14:30]

# Conclusions

The current COVID19 pandemic crisis is hitting developing countries hard, and its economic impact will be severe. It will severely undermine the chances of meeting the SDGs and the Paris climate commitments. We estimate that, even using optimistic IMF scenarios of likely impacts of the current crisis on growth, the hit to public revenues for developing countries will be severe, and worth several times the amount they currently receive in aid. Public debt problems are once again becoming the major focus of concern across the developing world

More international public finance could be found, if some of the inititives discussed in chapter 3 of this report were taken up seriously. Table 3.2 shows the potential scale of the various initiatives discussed, showing that it is possible to find large scale international public finance if the political will can be mobilized.

This is why it is time to electrify the discussion on how to produce new and additional international public resources for the SDGs and climate commitments. It is one crucial plank of efforts to re-inject ambition and hope into the international mission to achieve these critical objectives. This paper aims to provide one contribution to reviving this critical discussion.

**Table 3.2** : potential scale (USD) of main sources discussed in this chapter

| Source | Potential Scale (per year)* |
|---|---|
| **Taxation-based options** | |
| Financial transaction taxes | $$$$ |
| Airline Ticket Levy | $$ - $$$ |
| Carbon taxes | $$$$ - $$$$$ |
| Wealth taxes | $$$$ - $$$$$ |
| Reducing tax avoidance | $$$$ - $$$$$ |
| **Expenditure reallocation** | |
| Removing fossil fuel subsidies | $$$$ - $$$$$ |
| **Financial 'innovation'** | |
| SDR issuance | $$$$ |
| **Debt-related options** | |
| Debt cancellation and standstills | $$$ - $$$$ |
| Debt swaps | $$ - $$$ |
| **Private sector options** | |
| Charitable / philanthropic resources | $$ - $$$ |
| Lotteries | $ - $$ |
| **Increases in ODA** | |
| Meet 0.7% GNI target | $$$$ |
| Higher targets (1%-5% GNI | $$$$ - $$$$$ |

*Potential Scale:

- $= millions USD
- $$ = billions USD
- $$$ = tens of billions USD
  $$$$ = hundreds of billions USD
  $$$$$ = trillions USD

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**▲ Krishna Sunuwar, a plumber, repairs a tap in Kharelthok Village, Kavrepalanchok District, Central Region, Bagmati Zone, Nepal July 2016.**

# Annex 1. IMF functions of government

| List of IMF expenditure by function of government | |
|---|---|
| **701 GENERAL PUBLIC SERVICES:** | 7011 EXECUTIVE AND LEGISLATIVE ORGANS, FINANCIAL AND FISCAL AFFAIRS, EXTERNAL AFFAIRS; 7012 FOREIGN ECONOMIC AID; **7013 GENERAL SERVICES;** 7014 BASIC RESEARCH; 7015 R&D GENERAL PUBLIC SERVICES; **7016 GENERAL PUBLIC SERVICES N.E.C.;** 7017 PUBLIC DEBT TRANSACTIONS; 7018 TRANSFERS OF A GENERAL CHARACTER BETWEEN DIFFERENT LEVELS OF GOVERNMENT |
| **702 DEFENSE** | 7021 MILITARY **DEFENSE; 7022 CIVIL DEFENSE;** 7023 FOREIGN MILITARY AID; 7024 R&D DEFENSE; 7025 DEFENSE N.E.C. |
| **703 PUBLIC ORDER AND SAFETY** | **7031 POLICE SERVICES; 7032 FIRE PROTECTION SERVICES; 7033 L AW COURTS; 7034 PRISONS; 7035 R&D PUBLIC ORDER AND SAFETY; 7036 PUBLIC ORDER AND SAFETY N.E.C.** |
| **704 ECONOMIC AFFAIRS** | 7041 GENERAL ECONOMIC, COMMERCIAL, AND LABOR AFFAIRS; **7042 AGRICULTURE, FORESTRY, FISHING AND HUNTING; 7043 FUEL AND ENERGY;** 7044 MINING, MANUFACTURING, AND CONSTRUCTION; **7045 TRANSPORT; 7046 COMMUNICATION;** 7047 OTHER INDUSTRIES; 7048 R&D ECONOMIC AFFAIRS; 7049 ECONOMIC AFFAIRS N.E.C. |
| **705 ENVIRONMENTAL PROTECTION** | **7051 WASTE MANAGEMENT; 7052 WASTE WATER MANAGEMENT; 7053 POLLUTION ABATEMENT; 7054 PROTECTION OF BIODIVERSITY AND LANDSCAPE; 7055 R&D ENVIRONMENTAL PROTECTION; 7056 ENVIRONMENTAL PROTECTION N.E.C.** |
| **706 HOUSING AND COMMUNITY AMENITIES** | 7061 HOUSING DEVELOPMENT; 7062 COMMUNITY DEVELOPMENT; **7063 WATER SUPPLY;** 7064 STREET LIGHTING; 7065 R&D HOUSING AND COMMUNITY AMENITIES; 7066 HOUSING AND COMMUNITY AMENITIES N.E.C. |
| **707 HEALTH** | **7071 MEDICAL PRODUCTS, APPLIANCES, AND EQUIPMENT; 7072 OUTPATIENT SERVICES; 7073 HOSPITAL SERVICES; 7074 PUBLIC HEALTH SERVICES; 7075 R&D HEALTH; 7076 HEALTH N.E.C.** |
| **708 RECREATION, CULTURE, AND RELIGION** | 7081 RECREATIONAL AND SPORTING SERVICES; 7082 CULTURAL SERVICES; 7083 BROADCASTING AND PUBLISHING SERVICES; 7084 RELIGIOUS AND OTHER COMMUNITY SERVICES; 7085 R&D RECREATION, CULTURE, AND RELIGION; 7086 RECREATION, CULTURE, AND RELIGION N.E.C. |
| **709 EDUCATION** | **7091 PRE-PRIMARY AND PRIMARY EDUCATION; 7092 SECONDARY EDUCATION; 7093 POST-SECONDARY NON-TERTIARY EDUCATION; 7094 TERTIARY EDUCATION; 7095 EDUCATION NOT DEFINABLE BY LEVEL; 7096 SUBSIDIARY SERVICES TO EDUCATION; 7097 R&D EDUCATION; 7098 EDUCATION N.E.C.** |
| **710 SOCIAL PROTECTION** | **7101 SICKNESS AND DISABILITY; 7102 OLD AGE; 7103 SURVIVORS; 7104 FAMILY AND CHILDREN; 7105 UNEMPLOYMENT; 7106 HOUSING; 7107 SOCIAL EXCLUSION N.E.C.; 7108 R&D SOCIAL PROTECTION; 7109 SOCIAL PROTECTION N.E.C.** |

Note: functions which are bolded and underlined are the functions we selected as we consider they contribute to the SDG agenda.

# Annex 2. Income group and regional classification as per World Bank

| Economy | Region | Income group |
|---|---|---|
| Afghanistan | South Asia | Low income |
| Benin | Sub-Saharan Africa | Low income |
| Burkina Faso | Sub-Saharan Africa | Low income |
| Burundi | Sub-Saharan Africa | Low income |
| Central African Republic | Sub-Saharan Africa | Low income |
| Chad | Sub-Saharan Africa | Low income |
| Congo, Dem. Rep. | Sub-Saharan Africa | Low income |
| Eritrea | Sub-Saharan Africa | Low income |
| Ethiopia | Sub-Saharan Africa | Low income |
| Gambia, The | Sub-Saharan Africa | Low income |
| Guinea | Sub-Saharan Africa | Low income |
| Guinea-Bissau | Sub-Saharan Africa | Low income |
| Haiti | Latin America & Caribbean | Low income |
| Korea, Dem. People's Rep. | East Asia & Pacific | Low income |
| Liberia | Sub-Saharan Africa | Low income |
| Madagascar | Sub-Saharan Africa | Low income |
| Malawi | Sub-Saharan Africa | Low income |
| Mali | Sub-Saharan Africa | Low income |
| Mozambique | Sub-Saharan Africa | Low income |
| Nepal | South Asia | Low income |
| Niger | Sub-Saharan Africa | Low income |
| Rwanda | Sub-Saharan Africa | Low income |
| Sierra Leone | Sub-Saharan Africa | Low income |
| Somalia | Sub-Saharan Africa | Low income |
| South Sudan | Sub-Saharan Africa | Low income |
| Syrian Arab Republic | Middle East & North Africa | Low income |
| Tajikistan | Europe & Central Asia | Low income |
| Tanzania | Sub-Saharan Africa | Low income |
| Togo | Sub-Saharan Africa | Low income |
| Uganda | Sub-Saharan Africa | Low income |

| | | |
|---|---|---|
| Yemen, Rep. | Middle East & North Africa | Low income |
| Angola | Sub-Saharan Africa | Lower middle income |
| Bangladesh | South Asia | Lower middle income |
| Bhutan | South Asia | Lower middle income |
| Bolivia | Latin America & Caribbean | Lower middle income |
| Cabo Verde | Sub-Saharan Africa | Lower middle income |
| Cambodia | East Asia & Pacific | Lower middle income |
| Cameroon | Sub-Saharan Africa | Lower middle income |
| Comoros | Sub-Saharan Africa | Lower middle income |
| Congo, Rep. | Sub-Saharan Africa | Lower middle income |
| Côte d'Ivoire | Sub-Saharan Africa | Lower middle income |
| Djibouti | Middle East & North Africa | Lower middle income |
| Egypt, Arab Rep. | Middle East & North Africa | Lower middle income |
| El Salvador | Latin America & Caribbean | Lower middle income |
| Eswatini | Sub-Saharan Africa | Lower middle income |
| Ghana | Sub-Saharan Africa | Lower middle income |
| Honduras | Latin America & Caribbean | Lower middle income |
| India | South Asia | Lower middle income |
| Indonesia | East Asia & Pacific | Lower middle income |
| Kenya | Sub-Saharan Africa | Lower middle income |
| Kiribati | East Asia & Pacific | Lower middle income |
| Kyrgyz Republic | Europe & Central Asia | Lower middle income |
| Lao PDR | East Asia & Pacific | Lower middle income |
| Lesotho | Sub-Saharan Africa | Lower middle income |
| Mauritania | Sub-Saharan Africa | Lower middle income |
| Micronesia, Fed. Sts. | East Asia & Pacific | Lower middle income |
| Moldova | Europe & Central Asia | Lower middle income |
| Mongolia | East Asia & Pacific | Lower middle income |
| Morocco | Middle East & North Africa | Lower middle income |
| Myanmar | East Asia & Pacific | Lower middle income |
| Nicaragua | Latin America & Caribbean | Lower middle income |
| Nigeria | Sub-Saharan Africa | Lower middle income |
| Pakistan | South Asia | Lower middle income |
| Papua New Guinea | East Asia & Pacific | Lower middle income |
| Philippines | East Asia & Pacific | Lower middle income |
| São Tomé and Principe | Sub-Saharan Africa | Lower middle income |
| Senegal | Sub-Saharan Africa | Lower middle income |
| Solomon Islands | East Asia & Pacific | Lower middle income |
| Sudan | Sub-Saharan Africa | Lower middle income |
| Timor-Leste | East Asia & Pacific | Lower middle income |
| Tunisia | Middle East & North Africa | Lower middle income |

| | | |
|---|---|---|
| Ukraine | Europe & Central Asia | Lower middle income |
| Uzbekistan | Europe & Central Asia | Lower middle income |
| Vanuatu | East Asia & Pacific | Lower middle income |
| Vietnam | East Asia & Pacific | Lower middle income |
| West Bank and Gaza | Middle East & North Africa | Lower middle income |
| Zambia | Sub-Saharan Africa | Lower middle income |
| Zimbabwe | Sub-Saharan Africa | Lower middle income |
| Albania | Europe & Central Asia | Upper middle income |
| Algeria | Middle East & North Africa | Upper middle income |
| American Samoa | East Asia & Pacific | Upper middle income |
| Argentina | Latin America & Caribbean | Upper middle income |
| Armenia | Europe & Central Asia | Upper middle income |
| Azerbaijan | Europe & Central Asia | Upper middle income |
| Belarus | Europe & Central Asia | Upper middle income |
| Belize | Latin America & Caribbean | Upper middle income |
| Bosnia and Herzegovina | Europe & Central Asia | Upper middle income |
| Botswana | Sub-Saharan Africa | Upper middle income |
| Brazil | Latin America & Caribbean | Upper middle income |
| Bulgaria | Europe & Central Asia | Upper middle income |
| China | East Asia & Pacific | Upper middle income |
| Colombia | Latin America & Caribbean | Upper middle income |
| Costa Rica | Latin America & Caribbean | Upper middle income |
| Cuba | Latin America & Caribbean | Upper middle income |
| Dominica | Latin America & Caribbean | Upper middle income |
| Dominican Republic | Latin America & Caribbean | Upper middle income |
| Ecuador | Latin America & Caribbean | Upper middle income |
| Equatorial Guinea | Sub-Saharan Africa | Upper middle income |
| Fiji | East Asia & Pacific | Upper middle income |
| Gabon | Sub-Saharan Africa | Upper middle income |
| Georgia | Europe & Central Asia | Upper middle income |
| Grenada | Latin America & Caribbean | Upper middle income |
| Guatemala | Latin America & Caribbean | Upper middle income |
| Guyana | Latin America & Caribbean | Upper middle income |
| Iran, Islamic Rep. | Middle East & North Africa | Upper middle income |
| Iraq | Middle East & North Africa | Upper middle income |
| Jamaica | Latin America & Caribbean | Upper middle income |
| Jordan | Middle East & North Africa | Upper middle income |
| Kazakhstan | Europe & Central Asia | Upper middle income |
| Kosovo | Europe & Central Asia | Upper middle income |
| Lebanon | Middle East & North Africa | Upper middle income |
| Libya | Middle East & North Africa | Upper middle income |

| | | |
|---|---|---|
| Malaysia | East Asia & Pacific | Upper middle income |
| Maldives | South Asia | Upper middle income |
| Marshall Islands | East Asia & Pacific | Upper middle income |
| Mauritius | Sub-Saharan Africa | Upper middle income |
| Mexico | Latin America & Caribbean | Upper middle income |
| Montenegro | Europe & Central Asia | Upper middle income |
| Namibia | Sub-Saharan Africa | Upper middle income |
| Nauru | East Asia & Pacific | Upper middle income |
| North Macedonia | Europe & Central Asia | Upper middle income |
| Paraguay | Latin America & Caribbean | Upper middle income |
| Peru | Latin America & Caribbean | Upper middle income |
| Romania | Europe & Central Asia | Upper middle income |
| Russian Federation | Europe & Central Asia | Upper middle income |
| Samoa | East Asia & Pacific | Upper middle income |
| Serbia | Europe & Central Asia | Upper middle income |
| South Africa | Sub-Saharan Africa | Upper middle income |
| Sri Lanka | South Asia | Upper middle income |
| St. Lucia | Latin America & Caribbean | Upper middle income |
| St. Vincent and the Grenadines | Latin America & Caribbean | Upper middle income |
| Suriname | Latin America & Caribbean | Upper middle income |
| Thailand | East Asia & Pacific | Upper middle income |
| Tonga | East Asia & Pacific | Upper middle income |
| Turkey | Europe & Central Asia | Upper middle income |
| Turkmenistan | Europe & Central Asia | Upper middle income |
| Tuvalu | East Asia & Pacific | Upper middle income |
| Venezuela, RB | Latin America & Caribbean | Upper middle income |

Source: World Bank, available here
http://databank.worldbank.org/data/download/site-content/CLASS.xls
[accessed March 2020]